

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input checked="" type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name City of Gladwin, Michigan	County Gladwin
Fiscal Year End June 30, 2006	Opinion Date September 7, 2006	Date Audit Report Submitted to State December 19, 2006	

We affirm that:

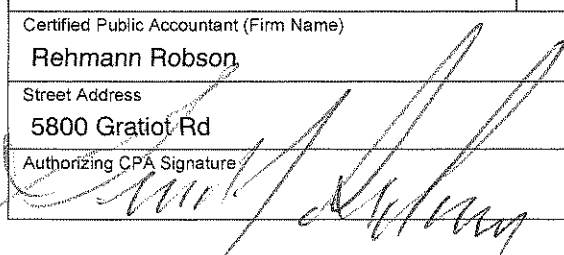
We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

- YES NO Check each applicable box below. (See instructions for further detail.)
- ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
  - ☐ ☒ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
  - ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
  - ☒ ☐ The local unit has adopted a budget for all required funds.
  - ☒ ☐ A public hearing on the budget was held in accordance with State statute.
  - ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
  - ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
  - ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
  - ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
  - ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
  - ☒ ☐ The local unit is free of repeated comments from previous years.
  - ☒ ☐ The audit opinion is UNQUALIFIED.
  - ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
  - ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
  - ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

<b>We have enclosed the following:</b>	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input checked="" type="checkbox"/>			
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name) Rehmann Robson		Telephone Number (989) 799-9580		
Street Address 5800 Gratiot Rd		City Saginaw	State MI	Zip 48603
Authorizing CPA Signature 		Printed Name Gerald J. Desloover, CPA		License Number 1101007126



# City of Gladwin, Michigan

## Comprehensive Annual Financial Report

For the Fiscal Year Ending  
June 30, 2006

**CITY OF GLADWIN, MICHIGAN  
COMPREHENSIVE ANNUAL FINANCIAL REPORT  
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FOR THE YEAR ENDED JUNE 30, 2006**

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**1000 West Cedar Avenue  
Gladwin, Michigan 48624  
Telephone: (989) 426-9231  
Fax: (989) 426-6942**

October 3, 2006

To The Citizens of the City of Gladwin,  
And Members of the City Council

Michigan State law requires that all general-purpose local governments publish within six months of the close of each fiscal year a complete set of financial statements presented in conformity with generally accepted accounting principles (GAAP) and audited in accordance with generally accepted auditing standards by a firm of licensed certified public accountants. Pursuant to that requirement, we hereby issue the comprehensive annual financial report of the City of Gladwin for the fiscal year ended June 30, 2006.

This report consists of management's representations concerning the finances of the City of Gladwin. Consequently, management assumes full responsibility for the completeness and reliability of all of the information presented in this report. To provide a reasonable basis for making these representations, management of the City of Gladwin has established a comprehensive internal control framework that is designed both to protect the government's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the City of Gladwin's financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, the City of Gladwin's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

The City of Gladwin's financial statements have been audited by Rehmann Robson CPAs, a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City of Gladwin for the fiscal year ended June 30, 2006 are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the City of Gladwin's financial statements for the fiscal year ended June 30, 2006, are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

GAAP require that management provide a narrative introduction, overview and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. The City of Gladwin's MD&A can be found immediately following the report of the independent auditors.

## **Profile of the Government**

The City of Gladwin, incorporated in 1893, is located in the central part of Michigan's Lower Peninsula. The City of Gladwin is the county seat and largest of only two cities within Gladwin County and has a population of approximately 3,030. Gladwin serves as the primary commercial center, health care services provider and government center for the County's 26,000 permanent residents. Recreation and tourism play a large part in the City's overall economy. The summer population of the County is estimated to be in excess of 50,000 as southeastern Michigan metropolitan area residents flock to their summer cottages along the waterways of the County. This summer population carries well into the fall as hunters take to the county's expansive wooded areas, which are primarily State owned lands. The City of Gladwin currently occupies a land area of 3.75 square miles. The City is empowered to levy a property tax on both real and personal properties located within its boundaries.

The City of Gladwin operates under a "council-manager" form of government. Policy-making and legislative authority are vested in a governing council consisting of the mayor and eight other members. The governing council is responsible, among other things, for passing ordinances, adopting the budget, appointing committees, and hiring the City's administrator, clerk, assessor, treasurer and attorney. The government's administrator is responsible for carrying out the policies and ordinances of the governing council, for overseeing the day-to-day operations of the government, and for appointing the heads of the various departments. The council is elected on a non-partisan basis on odd numbered years. Council members serve four-year staggered terms, with four council members elected every two years.

The City of Gladwin provides a full range of services, including police protection; the construction and maintenance of highways, streets and other infrastructure; recreational activities and cultural events; and sanitation, water and sewer services. The City of Gladwin is also financially accountable for a legally separate airport which is reported separately within the City's financial statements. Additional information on this and other legally separate entities can be found in the notes to the financial statements.

The council adopts an annual budget. The annual budget serves as a foundation for the City of Gladwin's financial planning and control. Additional discussion of the budget process and legal control levels can be found in the notes to the financial statements. Budget comparisons for governmental funds can be found in the Supplemental Data section of the report immediately following the notes to the financial statements.

## **Economic Conditions, Outlook and Major Initiatives**

While the City of Gladwin and Gladwin County have always lagged behind a general rise in economic activity in the State of Michigan, we were encouraged in 2004 with the opening of Riverwalk Place in our commercial district and Packaging Direct's consolidation of its operations to our industrial park. The Riverwalk Place project created approximately 80 new retail jobs, and while not normally as well paying as those in the manufacturing sector, they were 80 new jobs that benefited those in our community without a job, or allowed some to improve their job situation. The additional 25 manufacturing jobs that Packaging Direct added to our employment base will help in recovering those lost when Simpson Industries moved their business operations.

The outlook for the City of Gladwin continues to improve. In September 2005 our Streetscape project began. That extended sidewalks, lighting and enhancement of M-61 from Bowery Street west to M-18. Some of those enhancements previously completed assisted the City in having a developer locate an assisted living facility at the western edge of our community. That project was completed late in 2005.



Our major initiative, beyond the completion of the Beech Street reconstruction to eliminate another portion of combined sewers, will be to initiate a sidewalk improvement plan and review our city's Master Plan and zoning ordinance. We are also planning an expansion to our water system in the form of a new water tower on the western end of the City and a possible law enforcement center to replace the current police headquarters.

### **Cash Management**

During the year, idle cash was invested in demand deposits, MBIA Class Investment Pool, Bank Investment Funds and government securities. The City's policy is to maintain a competitive yield on its portfolio while minimizing market risk. Accordingly, deposits were either insured by the Federal Deposit Insurance Corporation or Government-backed wherever possible. Pooled cash and investment earnings for Fiscal Year 2005-2006 were \$72,098.58.

### **Long-Term Financial Planning**

It is the long-term financial goal of the City of Gladwin to maintain a minimum General Fund balance of \$400,000. With relatively flat or declining revenues and increasing expenses for wages, supplies, equipment and benefits for the employees, the challenge of keeping the City of Gladwin in long-term financial success will be an on-going struggle.

We will continue to proactively seek out ways to deliver quality services and commodities at an affordable price. It is also our goal not to reduce service levels and to keep the City of Gladwin financially healthy in the long run.

### **Risk Management**

Since 1991, the City has been a member of the Michigan Municipal Liability and Property Pool, a self insurance risk association operating under the authority of Act 138, Michigan Public Acts of 1982. The purpose of the association is to administer a risk fund which provides the member loss protection for general and auto liability, motor vehicle physical damage and property protection. Contributions are applied to the procurement of reinsurance, risk management, underwriting, payment of claims, establishment of loss reserves and other related expenses.

A member's loss contribution account is charged or credited according to the member's actual loss experience; no obligation is credited for another member's losses. If contributions are in excess of actual expenses and reserves, future contributions are decreased. Should any member have more losses paid on their behalf than contributions covering such losses, credit is extended within the association joint loss fund; such a deficit is repaid by the member in future contributions.

### **Pension Plan**

The Mayor, members of City Council and all full-time city employees are covered by pension plans. A complete review of all pension plans is presented in the notes to the financial statements.

### **Awards**

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Gladwin for its comprehensive annual financial report for the fiscal year ended June 30, 2005. This was the twelfth consecutive year that the City of Gladwin has received this prestigious award. In order to

be awarded a Certificate of Achievement, the government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

### **Acknowledgements**

The preparation of the report would not have been possible without the efficient and dedicated services of the City Treasurer, Elizabeth A. Barnebee and staff. We would also like to express appreciation to the staff of Rehmann, Robson, CPAs for their contributions to the excellence of this report. Credit also must be given to the governing council for their unfailing support for maintaining the highest standards of professionalism in the management of the City of Gladwin's finances.

Respectfully submitted,

A handwritten signature in cursive script that reads "Robert L. Moffit".

Robert L. Moffit  
City Administrator

# Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Gladwin,  
Michigan

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
June 30, 2005

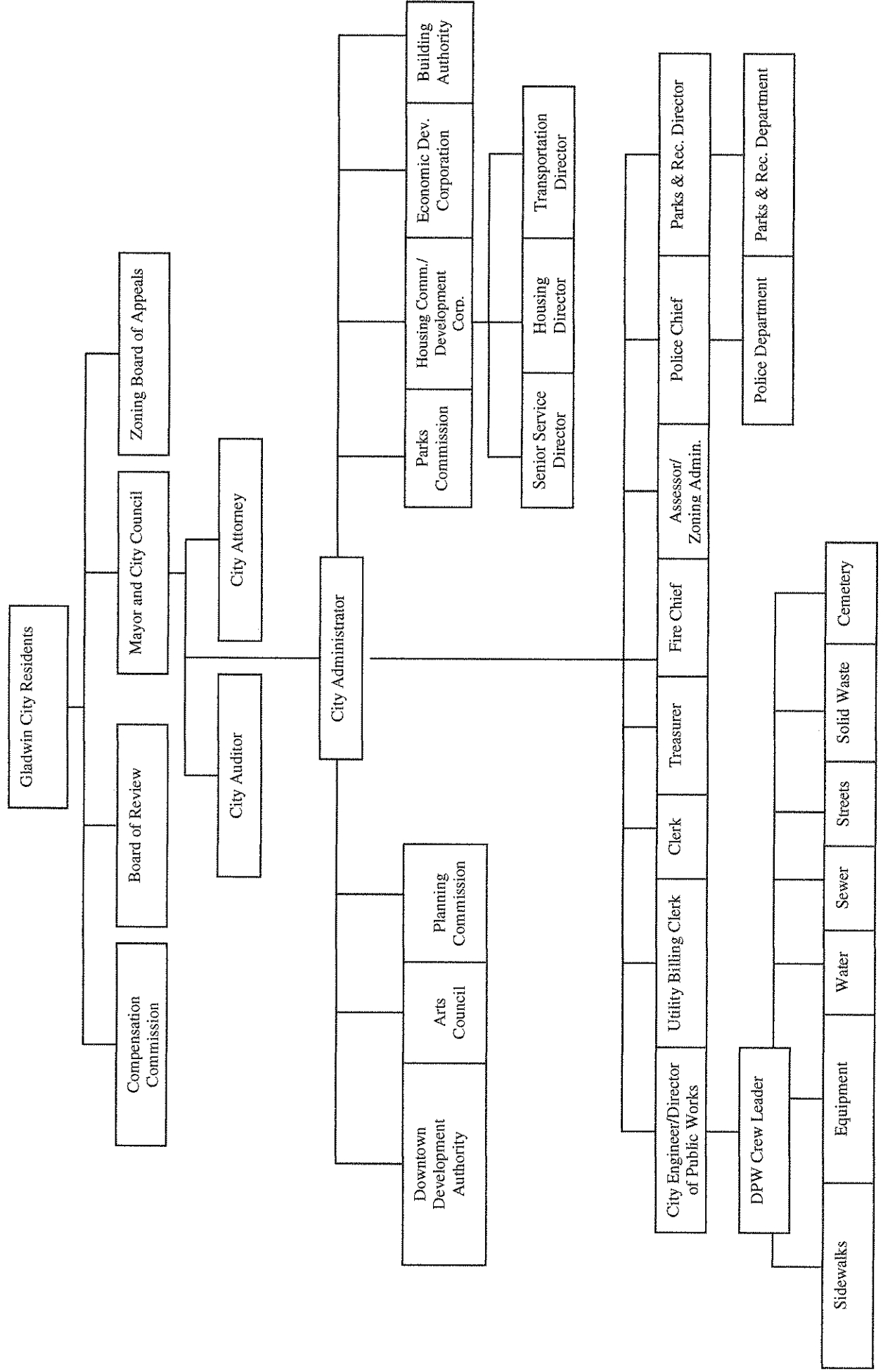
A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



President

Executive Director

# City of Gladwin Organizational Chart



# **CITY OF GLADWIN**

## **OFFICIALS**

**Thomas L. Winarski**  
**Mayor**

### **Council**

Polly Alward  
John Caffrey  
David Crawford  
Thomas Hindman

Darlene Jungman  
Thomas Mienk  
Vee Novak  
Michael Smith

### **Administration**

Robert Moffit  
City Administrator

Elizabeth Barnebee  
Treasurer

Douglas Jacobson  
Attorney

Charles Jones  
Police Chief

Bernadette Weaver  
Assessor

Shannon Greaves  
Clerk

James Chasteen  
Parks & Recreation Director

George Alward  
Fire Chief

Sheila Hall  
Housing Director

## **FINANCIAL SECTION**

This section is composed of the following parts:

Independent Auditor's Report

Management's Discussion and Analysis

Basic Financial Statements

Supplementary Information



## INDEPENDENT AUDITORS' REPORT

September 7, 2006

City Council  
City of Gladwin, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the **City of Gladwin, Michigan**, as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the **City of Gladwin, Michigan**, as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof and the budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 7, 2006, on our consideration of the **City of Gladwin, Michigan's** internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and on compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis listed in the table of contents on pages 3 through 12 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise *City of Gladwin, Michigan's* basic financial statements. The introductory section, combining and individual fund financial statements and schedules, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual fund financial statements and schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects in relation to the basic financial statements taken as a whole.

The introductory section and statistical section, as listed in the table of contents, have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion on them.

A handwritten signature in cursive script, reading "Lehmann Johnson".



# **CITY OF GLADWIN**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

As management of the City of Gladwin, we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City of Gladwin for the fiscal year ended June 30, 2006. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found in this report. All amounts, unless otherwise indicated, are presented in whole.

### **Financial Highlights**

The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$12,490,396 (net assets). Of this amount, \$3,418,094 (unrestricted net assets) may be used to meet the government's ongoing obligations to the citizens and creditors.

The government's total net assets increased by \$662,177. This increase was primarily due to payment of current obligations and a new building in the city park.

At the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$1,196,208, a decrease of \$175,525 in comparison with the prior year. This is primarily due to completion of lagoon repairs at the wastewater treatment plant. Approximately \$735,432 of this total amount is available for spending at the government's discretion (unreserved-undesignated fund balance).

At the end of the current fiscal year, unreserved fund balance for the general fund was \$459,843 or approximately 28 percent of total general fund expenditures.

The City's total debt decreased by \$87,878 (2 percent) during the current fiscal year. The key factor in this decrease was the payment of current obligations.

### **Overview of the Financial Statements**

This discussion and analysis are intended to serve as an introduction of the City's basic financial statements. The City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**Government-wide financial statements.** The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private sector business.

The statement of net assets presents information on all the City's assets and liabilities, with a difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The statement of activities presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-

# CITY OF GLADWIN

## MANAGEMENT'S DISCUSSION AND ANALYSIS

type activities). The governmental activities of the City include general government, public safety, public works, health & welfare, recreation & culture, and Debt Service. The business-type activities of the City include the Ice Arena and the Water and Sewer operations.

The government-wide financial statements include not only the City itself (known as the primary government), but also the legally separate Downtown Development Authority, Economic Development Corporation and the Gladwin Airport for which the City is financially accountable. Financial information presented for these component units is reported separately from the financial information presented for the primary government itself.

The government-wide financial statements can be found in this report.

**Fund financial statements.** A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

**Governmental funds.** Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on the near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains eleven individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund and a capital projects fund, the Downtown Development Project, which is considered to be a major fund. Data from the other nine governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in the report.

The City adopts an annual appropriated budget for its general fund and all special revenue fund types. Budgetary comparison statements and schedules have been provided in the basic financial statements for the major funds and in the supplemental section of the report for nonmajor funds to demonstrate the extent of compliance with these budgets.

The basic governmental fund financial statements can be found in this report.

**Proprietary funds.** The City maintains two different types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its Ice Arena, Sewer and Water operation.

# CITY OF GLADWIN

## MANAGEMENT'S DISCUSSION AND ANALYSIS

Internal service funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses an internal service fund to account for its fleet of vehicles. Because the services of the fund predominantly benefit governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Ice Arena, Water and Sewer operations, all of which are considered to be major funds of the City. Also, the internal service fund is presented in the proprietary fund financial statements.

The basic proprietary fund financial statements can be found in this report.

**Fiduciary funds.** Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the City's own programs. Currently the City has two funds that are agency type funds.

The basic fiduciary fund financial statements can be found in this report.

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found in this report.

**Other information.** In addition to the basic financial statements and accompanying notes, this report also presents other supplementary information in connection with nonmajor governmental funds. Combining and individual fund statements and schedules can be found in this report. Additionally, statistical data and compliance data are also included as described in the table of contents.

### Government-wide Financial Analysis

The following summaries provide a perspective of the financial information of the City as a whole:

City of Gladwin's Net Assets						
	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Current and other assets	\$ 1,483,060	\$ 1,799,912	\$ 3,656,987	\$ 3,619,017	\$ 5,140,047	\$ 5,418,929
Capital assets	8,130,817	7,034,988	3,443,294	3,355,677	11,574,111	10,390,665
Total assets	9,613,877	8,834,900	7,100,281	6,974,694	16,714,158	15,809,594
Long-term liabilities						
outstanding	2,518,801	2,654,087	1,305,938	1,405,091	3,824,739	4,059,178
Other liabilities	295,615	373,626	103,408	24,994	399,023	398,620
Total liabilities	2,814,416	3,027,713	1,409,346	1,430,085	4,223,762	4,457,798
Net assets:						
Invested in capital assets,						
net of related debt	5,499,935	4,327,514	3,203,294	3,085,677	8,703,229	7,413,191
Restricted	369,073	623,108	-	1,566,981	369,073	2,190,089
Unrestricted	930,453	856,565	2,487,641	891,951	3,418,094	1,748,516
Total net assets	\$ 6,799,461	\$ 5,807,187	\$ 5,690,935	\$ 5,544,609	\$ 12,490,396	\$ 11,351,796

# CITY OF GLADWIN

## MANAGEMENT'S DISCUSSION AND ANALYSIS

City of Gladwin's Changes in Net Assets							
	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>		
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	
Revenues:							
Program revenues:							
Charges for Services	\$ 406,964	\$ 406,065	\$ 1,141,580	\$ 1,094,117	\$ 1,548,544	\$ 1,500,182	
Operating grants and contributions	61,105	253,053	17,082	-	278,187	253,053	
Capital grants and contributions	513,228	267,480	-	-	513,228	267,480	
General Revenues:							
Property taxes	1,078,266	999,790		-	1,078,266	999,790	
Grants and contributions not restricted to specific programs	338,786	-	-	-	338,786	-	
Other	118,269	420,130		9,951	118,269	430,081	
Total revenues	\$ 2,716,618	\$ 2,346,518	\$ 1,158,662	\$ 1,104,068	\$ 3,875,280	\$ 3,450,586	
Expenses:							
General Government	\$ 612,092	\$ 569,926	\$ -	\$ -	\$ 612,092	\$ 569,926	
Public Safety	614,820	618,534	-	-	614,820	618,534	
Public Works	782,236	1,278,531	-	-	782,236	1,278,531	
Health and Welfare	688	660	-	-	688	660	
Recreation and Culture	147,728	151,440	-	-	147,728	151,440	
Interest and Fees on Long-Term Debt	138,644	142,526	-	-	138,644	142,526	
Ice Arena	-	-	64,124	63,957	64,124	63,957	
Sewer	-	-	478,633	493,068	478,633	493,068	
Water	-	-	395,518	337,619	395,518	337,619	
Total Expenses	\$ 2,296,208	\$ 2,761,617	\$ 938,275	\$ 894,644	\$ 3,234,483	\$ 3,656,261	
Change in net assets before transfers	420,410	(415,099)	241,767	209,424	662,177	(205,675)	
Transfers	139,643	121,787	(139,643)	(121,787)	-	-	
Change in net assets	560,053	(293,312)	102,124	87,637	662,177	(205,675)	
Net Assets - July 1	6,239,408	6,100,499	5,588,811	5,456,972	11,828,219	11,557,471	
Net Assets - June 30	\$ 6,799,461	\$ 5,807,187	\$ 5,690,935	\$ 5,544,609	\$ 12,490,396	\$ 11,351,796	

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City of Gladwin, assets exceeded liabilities by \$12,490,396 at the close of the most recent fiscal year.

By far the largest portion of the City's net assets (approximately 72 percent) reflects its investment in capital assets (e.g., land, buildings, machinery, equipment, and infrastructure); less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

## CITY OF GLADWIN MANAGEMENT'S DISCUSSION AND ANALYSIS

An additional portion of the City's total net assets (12 percent) represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets (\$3,418,094) may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City is able to report positive balances in all three categories of net assets for the government as a whole.

The government's net assets increased by \$662,177 during the current fiscal year. Much of this increase can be contributed to reductions in spending, prior infrastructure improvements and a new building in the city park.

**Governmental activities.** Governmental activities increased the City's net assets by \$560,053. The key element of this increase as stated above was primarily due to reductions in spending, previous infrastructure improvements and a new building in the city park.

**Business-type activities.** Business-type activities increased the City's net assets by \$102,124. The key element of this increase is there were no major sewer projects in the second half of the fiscal year and a higher value on the water and sewer systems because of recent improvements.

### Financial Analysis of the Government's Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**Governmental funds.** The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$1,196,208, a decrease of \$175,525 in comparison with the prior year. The key element of this decrease can be attributed to infrastructure improvement projects. Approximately \$824,947 constitutes unreserved fund balance, which is available for spending at the government's discretion. However, certain balances of this amount have been designated for use of savings for 1) police activities (\$21,680), 2) City Hall improvements (\$62,835), and 3) emergency contingencies (\$5,000). The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed 1) to fund major capital project fund endeavors (\$37,681), 2) to pay debt service (\$215,419), 3) funds already spent for the ensuing fiscal year (\$2,188), and 4) to generate income to pay for the perpetual care of the municipal cemetery (\$115,973).

The General fund is the chief operating fund of the City. At the end of the current fiscal year, unreserved fund balance of the general fund was \$459,843, while total fund balance reached \$462,031. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 28 percent of total general fund expenditures, while total fund balance represents 28 percent of that same amount.

The fund balance of the City's general fund decreased by \$1,991 during the current fiscal year. Key factors in this change are attributable to reductions in revenue, specifically in state revenue sharing, being greater than the reductions in spending in the various departments in the general fund.

## **CITY OF GLADWIN MANAGEMENT'S DISCUSSION AND ANALYSIS**

The fund balance of the Downtown Development Project fund decreased by \$305,513 during the fiscal year. This decrease is due primarily to completion of lagoon repairs and alley repairs from Bowery to Silverleaf Street.

Significant Non-major Governmental fund decreases in fund balance occurred in the City's local and city street funds representing primarily an investment in street maintenance and repair.

***Proprietary funds.*** The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets of the Ice Arena, Sewer, and Water funds at the end of the year amounted to \$1,351,063, \$423,760, and \$691,392, respectively. The sewer fund experienced a net increase in net assets of \$102,439, while the Ice Arena and Water funds experienced a net increase and net decrease in net assets of \$389 and \$3,956 respectively. Factors concerning the finances of these funds have already been addressed in the discussion of the City's business-type activities.

### **General Fund Budgetary Highlights**

The City attempted to amend the budget as it was apparent that original assumptions may not materialize as anticipated. The difference between the original budget and the final amended budget can be briefly summarized as follows:

Revenue was adjusted upward slightly, despite recent reductions in state revenue sharing which were offset by anticipated increases in interest and rents and departmental revenues.

Anticipated expenditures were adjusted primarily in the public safety department through reduced overtime hours and the resulting reduction in employee benefits, the elimination of the sidewalk program in the public works department and various reductions in the Council of Arts program.

Actual expenses for the year were \$85,438 less than originally budgeted. This was primarily due to reductions of expenses across the board by City Council, department heads and City staff.

### **Capital Asset and Debt Administration**

**Capital Assets.** The City's investment in capital assets for its governmental and business type activities as of June 30, 2006, amounts to \$11,574,111 (net of accumulated depreciation). This investment in capital assets includes land, buildings and system improvements, machinery and equipment, park facilities, roads, highways and bridges. The total increase in the City's investment in capital assets for the current fiscal year was 10 percent (a 17 percent increase for governmental activities and a 3 percent increase for business-type activities).

The City undertook a number of capital projects during the year, the most significant being the lagoon improvements and the Beech Street sewer separation and paving project.

# CITY OF GLADWIN

## MANAGEMENT'S DISCUSSION AND ANALYSIS

City of Gladwin's Capital Assets (net of depreciation)						
	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
Land	\$ 370,625	\$ 370,625	\$ 33,200	\$ 33,200	\$ 403,825	\$ 422,825
Construction in Progress	586,608	1,719,579	217,072	2,698	803,680	1,454,776
Land Improvements	387,013	408,904	11,983	15,163	398,996	424,067
Buildings	275,255	295,616	376,494	394,588	651,749	690,204
Building Improvements	28,543	34,528	-	-	28,543	34,528
Equipment and Vehicles	331,336	322,041	68,050	91,602	399,386	458,812
Infrastructure	6,151,437	4,315,916	2,736,495	2,862,630	8,887,932	6,905,453
Total	\$ 8,130,817	\$ 7,467,209	\$ 3,443,294	\$ 3,399,881	\$ 11,574,111	\$ 10,390,665

Additional information on the City's capital assets can be found in the Notes to Financial Statements in this report.

**Long-term debt.** At the end of the current fiscal year, the City had total bonded debt outstanding of \$4,066,892. Of this amount, \$2,916,892 comprises debt backed by the full faith and credit of the government and the remaining \$1,150,000 represents bonds secured solely by specified revenue sources.

City of Gladwin's Outstanding Debt General Obligation and Revenue Bonds						
	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
General Obligation Bonds and Other Debt	\$ 2,693,016	\$ 2,764,205	\$ 223,876	\$ 280,200	\$ 2,916,892	\$ 3,044,405
Revenue Bonds			1,150,000	1,150,000	1,150,000	1,150,000
Total	\$ 2,693,016	\$ 2,764,205	\$ 1,373,876	\$ 1,430,200	\$ 4,066,892	\$ 4,194,405

The City's total debt decreased by \$89,832.

State statutes limit the amount of general obligation debt a governmental entity may issue to 10 percent of its total assessed value of all real and personal property subject to taxation in the City. As of June 30, 2006, the City's direct and indirect debt of \$3,055,000 was below the legal limit of \$7,331,109.

### Economic Factors and Next Year's Budgets and Rates.

Next year's budget will again be limited to the maintenance of existing services with an eye to keeping increases in departmental budgets to a minimum. The uncertainty of a stable number for revenue sharing from the State of Michigan has encouraged the council to keep a tight budget until we can be certain of availability of funds. We continue to seek out federal and state funding so that we can move forward with infrastructure improvements and continue to meet the needs of the community without having to significantly increase rates and charges to provide services.

## **CITY OF GLADWIN MANAGEMENT'S DISCUSSION AND ANALYSIS**

In order to increase accountability and arm ourselves with the tools necessary to adequately project when changes are needed in funding levels, we are implementing new budget and cost monitoring procedures to better analyze our revenues and costs.

### **Requests for information.**

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City Treasurer's office.



## **BASIC FINANCIAL STATEMENTS**

## **GOVERNMENT-WIDE FINANCIAL STATEMENTS**

**CITY OF GLADWIN**

**STATEMENT OF NET ASSETS  
JUNE 30, 2006**

	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>	<b>Component Units</b>
<b>Assets</b>				
Cash and cash equivalents	\$ 822,458	\$ 727,916	\$ 1,550,374	\$ 444,590
Investments	403,525	96,159	499,684	-
Receivables	267,165	2,794,442	3,061,607	4,770
Internal balances	(21,426)	21,426	-	-
Deferred charges	9,150	-	9,150	6,667
Inventory	-	17,044	17,044	15,447
Prepaid expenses	2,188	-	2,188	3,273
Capital assets, net:				
Assets not being depreciated	957,233	250,272	1,207,505	76,000
Assets being depreciated	7,173,584	3,193,022	10,366,606	1,245,702
<b>Total assets</b>	<b>9,613,877</b>	<b>7,100,281</b>	<b>16,714,158</b>	<b>1,796,449</b>
<b>Liabilities</b>				
Accounts payable and accrued expenses	121,400	35,469	156,869	9,076
Noncurrent liabilities:				
Due within one year	174,215	67,939	242,154	140,100
Due in more than one year	2,518,801	1,305,938	3,824,739	433,390
<b>Total liabilities</b>	<b>2,814,416</b>	<b>1,409,346</b>	<b>4,223,762</b>	<b>582,566</b>
<b>Net Assets</b>				
Invested in capital assets, net of related debt	5,499,935	3,203,294	8,703,229	1,208,064
Restricted for:				
Debt service	215,419	-	215,419	-
Capital projects	37,681	-	37,681	-
Cemetery perpetual care - nonexpendable	115,973	-	115,973	-
Unrestricted	930,453	2,487,641	3,418,094	5,819
<b>Total net assets</b>	<b>\$ 6,799,461</b>	<b>\$ 5,690,935</b>	<b>\$ 12,490,396</b>	<b>\$ 1,213,883</b>

The accompanying notes are an integral part of these financial statements.

**CITY OF GLADWIN**

**STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2006**

<b><u>Functions / Programs</u></b>	<b><u>Program Revenues</u></b>				<b><u>Net (Expense) Revenue</u></b>
	<b><u>Expenses</u></b>	<b><u>Charges for Services</u></b>	<b><u>Operating Grants and Contributions</u></b>	<b><u>Capital Grants and Contributions</u></b>	
<b>Primary government</b>					
Governmental activities:					
General government	\$ 612,092	\$ 58,986	\$ -	\$ -	\$ (553,106)
Public safety	614,820	109,640	11,740	10,000	(483,440)
Public works	782,236	159,670	247,486	503,228	128,148
Health and welfare	688	-	-	-	(688)
Recreation and culture	147,728	78,668	1,879	-	(67,181)
Interest on long-term debt	138,644	-	-	-	(138,644)
Total governmental activities	<u>2,296,208</u>	<u>406,964</u>	<u>261,105</u>	<u>513,228</u>	<u>(1,114,911)</u>
Business-type activities:					
Ice arena	64,124	60,479	-	-	(3,645)
Sewer	478,633	688,897	-	-	210,264
Water	395,518	392,204	17,082	-	13,768
Total business-type activities	<u>938,275</u>	<u>1,141,580</u>	<u>17,082</u>	<u>-</u>	<u>220,387</u>
Total primary government	<u>\$ 3,234,483</u>	<u>\$ 1,548,544</u>	<u>\$ 278,187</u>	<u>\$ 513,228</u>	<u>\$ (894,524)</u>
Component units:					
Downtown Development Authority	62,994	-	-	-	(62,994)
Economic Development Corporation	-	-	-	-	-
Gladwin Airport	199,172	91,326	70,000	-	(37,846)
Total component units	<u>\$ 262,166</u>	<u>\$ 91,326</u>	<u>\$ 70,000</u>	<u>\$ -</u>	<u>\$ (100,840)</u>

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
<b>Changes in net assets</b>				
Net (expense) revenue	\$ (1,114,911)	\$ 220,387	\$ (894,524)	\$ (100,840)
General revenues:				
Property taxes	1,078,266	-	1,078,266	357,470
Grants and contributions not restricted to specific programs	338,786	-	338,786	-
Unrestricted investment earnings	57,706	21,380	79,086	11,855
Other revenue	60,563	-	60,563	1,170
Gain on disposal of capital assets	-	-	-	2,712
Transfers	139,643	(139,643)	-	-
Total general revenues and transfers	1,674,964	(118,263)	1,556,701	373,207
Change in net assets	560,053	102,124	662,177	272,367
Net assets, beginning of year, as restated	6,239,408	5,588,811	11,828,219	941,516
<b>Net assets, end of year</b>	<u>\$ 6,799,461</u>	<u>\$ 5,690,935</u>	<u>\$ 12,490,396</u>	<u>\$ 1,213,883</u>

The accompanying notes are an integral part of these financial statements.

## **FUND FINANCIAL STATEMENTS**

**CITY OF GLADWIN  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2006**

<b>ASSETS</b>	General	Downtown Development Project	Other Governmental Funds	Total
Cash and cash equivalents	\$ 42,317	\$ -	\$ 568,150	\$ 610,467
Investments	311,140	-	92,385	403,525
Accounts receivable	37,991	-	188	38,179
Due from other funds	25,881	-	-	25,881
Due from other governmental units	108,759	73,913	39,081	221,753
Prepaid expenditures	2,188	-	-	2,188
<b>TOTAL ASSETS</b>	<b>\$ 528,276</b>	<b>\$ 73,913</b>	<b>\$ 699,804</b>	<b>\$ 1,301,993</b>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>LIABILITIES</b>				
Accounts payable	\$ 20,835	\$ 10,351	\$ 1,256	\$ 32,442
Accrued liabilities	45,410	-	2,052	47,462
Due to other funds	-	25,881	-	25,881
<b>TOTAL LIABILITIES</b>	<b>66,245</b>	<b>36,232</b>	<b>3,308</b>	<b>105,785</b>
<b>FUND BALANCES</b>				
Reserved for:				
Prepaid expenditures	2,188	-	-	2,188
Capital projects	-	37,681	-	37,681
Debt service	-	-	215,419	215,419
Cemetery perpetual care	-	-	115,973	115,973
Unreserved:				
Designated for emergency disaster	5,000	-	-	5,000
Designated for city hall improvements	62,835	-	-	62,835
Designated for drug enforcement	-	-	21,680	21,680
Undesignated:				
General Fund	392,008	-	-	392,008
Special Revenue Funds	-	-	343,424	343,424
<b>TOTAL FUND BALANCES</b>	<b>462,031</b>	<b>37,681</b>	<b>696,496</b>	<b>1,196,208</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 528,276</b>	<b>\$ 73,913</b>	<b>\$ 699,804</b>	<b>\$ 1,301,993</b>

The accompanying notes are an integral part of these financial statements.

**CITY OF GLADWIN**  
**RECONCILIATION OF FUND BALANCES ON THE BALANCE SHEET**  
**FOR GOVERNMENTAL FUNDS TO NET ASSETS OF**  
**GOVERNMENTAL ACTIVITIES ON THE STATEMENT OF NET ASSETS**  
**JUNE 30, 2006**

Fund balances - total governmental funds	\$ 1,196,208
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Amounts reported for *governmental activities* in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

Add - capital assets	16,444,469
Deduct - accumulated depreciation	(8,695,003)

Charges deferred to future periods in the governmental activities are not reported in the funds

Add - deferred charges	9,150
Add - unamortized discount	13,618

An internal service fund is used by management to charge the costs of fleet management to individual governmental funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.

Add - net assets of governmental activities accounted for in the internal service fund	468,451
--	---------

Certain liabilities, such as bonds payable, are not due and payable in the current period and therefore are not reported in the funds.

Deduct - long-term debt	(2,540,000)
Deduct - accrued interest on long-term debt	(35,298)
Deduct - compensated absences	(62,134)

Net assets of governmental activities	<u><u>\$ 6,799,461</u></u>
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The accompanying notes are an integral part of these financial statements.



**CITY OF GLADWIN**  
**STATEMENT OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2006**

	General	Downtown Development Project	Other Governmental Funds	Total
<b>REVENUES</b>				
Taxes	\$ 804,700	\$ -	\$ 273,566	\$ 1,078,266
Licenses and permits	32,871	-	-	32,871
Intergovernmental revenue	341,749	503,228	261,945	1,106,922
Charges for services	336,748	-	6,450	343,198
Fines and forfeitures	23,733	-	-	23,733
Interest and rentals	39,771	1,188	16,553	57,512
Other revenue	12,323	-	57,377	69,700
<b>TOTAL REVENUES</b>	<b>1,591,895</b>	<b>504,416</b>	<b>615,891</b>	<b>2,712,202</b>
<b>EXPENDITURES</b>				
Current:				
General government	537,697	-	-	537,697
Cemetery	67,727	-	-	67,727
Public safety	608,524	-	3,375	611,899
Public works	340,445	-	257,953	598,398
Health and welfare	688	-	-	688
Recreation and culture	115,745	-	304	116,049
Debt service	-	-	209,611	209,611
Capital outlay	-	892,301	-	892,301
<b>TOTAL EXPENDITURES</b>	<b>1,670,826</b>	<b>892,301</b>	<b>471,243</b>	<b>3,034,370</b>
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	<b>(78,931)</b>	<b>(387,885)</b>	<b>144,648</b>	<b>(322,168)</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	76,940	82,372	120,583	279,895
Transfers (out)	-	-	(133,252)	(133,252)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>76,940</b>	<b>82,372</b>	<b>(12,669)</b>	<b>146,643</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>(1,991)</b>	<b>(305,513)</b>	<b>131,979</b>	<b>(175,525)</b>
<b>FUND BALANCES, BEGINNING OF YEAR, AS RESTATED</b>	<b>464,022</b>	<b>343,194</b>	<b>564,517</b>	<b>1,371,733</b>
<b>FUND BALANCES, END OF YEAR</b>	<b>\$ 462,031</b>	<b>\$ 37,681</b>	<b>\$ 696,496</b>	<b>\$ 1,196,208</b>

The accompanying notes are an integral part of these financial statements.

**CITY OF GLADWIN  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGE IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2006**

Net change in fund balances - total governmental funds

Amounts reported for *governmental activities* in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Add - capital outlay  
Deduct - depreciation expense

Certain revenues reported in the statement of activities do not provide current financial resources and therefore are not reported as revenue in the funds, rather they are deferred to the following fiscal year.

Bond proceeds provide current financial resources to governmental funds in the period issued, but issuing bonds increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

Add - principal payments on long-term liabilities  
Deduct - amortization of discounts and deferred charges

An internal service fund is used by management to charge the costs of fleet management to individual governmental funds. The net revenue (expense) of the fund is reported with governmental activities.

Add - interest revenue from governmental internal service fund  
Add - net operating income from governmental activities in internal service fund  
Add - gain on disposal of capital assets  
Deduct - interest expense recorded in internal service fund  
Deduct - net transfers

Certain expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.

Deduct - increase in compensated absences  
Add - decrease in accrued interest payable on bonds

Change in net assets of governmental activities

The accompanying notes are an integral part of these financial statements.

**CITY OF GLADWIN  
GENERAL FUND  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL  
FOR THE YEAR ENDED JUNE 30, 2006**

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
<b>REVENUES</b>				
Taxes	\$ 813,500	\$ 832,989	\$ 804,700	\$ (28,289)
Licenses and permits	26,800	32,545	32,871	326
Intergovernmental revenue	343,280	345,191	341,749	(3,442)
Charges for services	325,395	340,102	336,748	(3,354)
Fines and forfeitures	23,500	23,500	23,733	233
Interest and rentals	14,300	26,900	39,771	12,871
Other revenue	46,100	10,587	12,323	1,736
<b>TOTAL REVENUES</b>	<b>1,592,875</b>	<b>1,611,814</b>	<b>1,591,895</b>	<b>(19,919)</b>
<b>EXPENDITURES</b>				
General government	557,117	528,003	537,697	(9,694)
Cemetery	70,050	66,300	67,727	(1,427)
Public safety	653,387	612,225	608,524	3,701
Public works	347,065	350,000	340,445	9,555
Health and welfare	865	765	688	77
Recreation and culture	127,780	120,300	115,745	4,555
<b>TOTAL EXPENDITURES</b>	<b>1,756,264</b>	<b>1,677,593</b>	<b>1,670,826</b>	<b>6,767</b>
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	<b>(163,389)</b>	<b>(65,779)</b>	<b>(78,931)</b>	<b>(13,152)</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	95,250	121,940	76,940	(45,000)
<b>NET CHANGE IN FUND BALANCES</b>	<b>(68,139)</b>	<b>56,161</b>	<b>(1,991)</b>	<b>(58,152)</b>
<b>FUND BALANCES, BEGINNING OF YEAR, AS RESTATED</b>	<b>464,022</b>	<b>464,022</b>	<b>464,022</b>	<b>-</b>
<b>FUND BALANCES, END OF YEAR</b>	<b>\$ 395,883</b>	<b>\$ 520,183</b>	<b>\$ 462,031</b>	<b>\$ (58,152)</b>

The accompanying notes are an integral part of these financial statements.

**CITY OF GLADWIN  
STATEMENT OF NET ASSETS  
PROPRIETARY FUNDS  
JUNE 30, 2006**

	<b>Business-type Activities - Enterprise Funds</b>				<b>Governmental Activities</b>
	Ice Arena	Sewer	Water	Total	Internal Service
<b>ASSETS</b>					
<b>CURRENT ASSETS</b>					
Cash and cash equivalents	\$ 5,842	\$ 367,499	\$ 354,575	\$ 727,916	\$ 211,991
Investments	96,159	-	-	96,159	-
Accounts receivable	-	77,416	36,689	114,105	7,233
Inventory	-	-	17,044	17,044	-
Lease receivable (net of unearned lease income)	89,559	-	-	89,559	-
<b>TOTAL CURRENT ASSETS</b>	<b>191,560</b>	<b>444,915</b>	<b>408,308</b>	<b>1,044,783</b>	<b>219,224</b>
<b>NONCURRENT ASSETS</b>					
Long-term advance to component units	-	-	295,257	295,257	-
Lease receivable (net of unearned lease income)	2,295,521	-	-	2,295,521	-
	2,295,521	-	295,257	2,590,778	-
<b>CAPITAL ASSETS</b>					
Construction in progress	-	106,997	110,075	217,072	-
Land	-	11,200	22,000	33,200	-
Land improvements	-	26,500	68,824	95,324	24,840
Building and system	-	4,940,204	4,452,028	9,392,232	58,831
Machinery and equipment	-	119,487	168,556	288,043	865,815
Less allowance for accumulated depreciation	-	(3,749,211)	(2,833,366)	(6,582,577)	(568,135)
<b>NET CAPITAL ASSETS</b>	<b>-</b>	<b>1,455,177</b>	<b>1,988,117</b>	<b>3,443,294</b>	<b>381,351</b>
<b>TOTAL NONCURRENT ASSETS</b>	<b>2,295,521</b>	<b>1,455,177</b>	<b>2,283,374</b>	<b>6,034,072</b>	<b>381,351</b>
<b>TOTAL ASSETS</b>	<b>2,487,081</b>	<b>1,900,092</b>	<b>2,691,682</b>	<b>7,078,855</b>	<b>600,575</b>
<b>LIABILITIES</b>					
<b>CURRENT LIABILITIES</b>					
Accounts payable	-	8,412	3,875	12,287	3,164
Accrued liabilities	-	7,125	3,873	10,998	251
Accrued interest payable	10,080	1,776	328	12,184	2,783
Vested benefits payable	-	3,842	4,097	7,939	-
Notes payable, current portion	-	-	-	-	40,500
Bonds payable, current portion	30,000	25,320	4,680	60,000	-
<b>TOTAL CURRENT LIABILITIES</b>	<b>40,080</b>	<b>46,475</b>	<b>16,853</b>	<b>103,408</b>	<b>46,698</b>
<b>LONG-TERM LIABILITIES</b>					
Notes payable, net of current portion	-	-	-	-	64,000
Bonds payable, net of current portion and discount	1,095,938	177,240	32,760	1,305,938	-
<b>TOTAL LONG-TERM LIABILITIES</b>	<b>1,095,938</b>	<b>177,240</b>	<b>32,760</b>	<b>1,305,938</b>	<b>64,000</b>
<b>TOTAL LIABILITIES</b>	<b>1,136,018</b>	<b>223,715</b>	<b>49,613</b>	<b>1,409,346</b>	<b>110,698</b>
<b>NET ASSETS</b>					
Investment in capital assets, net of related debt	-	1,252,617	1,950,677	3,203,294	276,851
Unrestricted	1,351,063	423,760	691,392	2,466,215	213,026
<b>TOTAL NET ASSETS</b>	<b>\$ 1,351,063</b>	<b>\$ 1,676,377</b>	<b>\$ 2,642,069</b>	<b>5,669,509</b>	<b>\$ 489,877</b>
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds.				21,426	
<b>NET ASSETS OF BUSINESS-TYPE ACTIVITIES</b>					<b>\$ 5,690,935</b>

The accompanying notes are an integral part of these financial statements.

**CITY OF GLADWIN  
PROPRIETARY FUNDS  
STATEMENT OF REVENUES, EXPENSES, AND  
CHANGES IN NET ASSETS  
FOR THE YEAR ENDED JUNE 30, 2006**

	<b>Business-type Activities - Enterprise Funds</b>				<b>Governmental Activities</b>
	<b>Ice Arena</b>	<b>Sewer</b>	<b>Water</b>	<b>Total</b>	<b>Internal Service</b>
<b>OPERATING REVENUES</b>					
Charges for services	\$ 60,479	\$ 677,097	\$ 365,377	\$ 1,102,953	\$ 164,491
Reimbursements	-	-	17,927	17,927	-
Miscellaneous	-	-	1,025	1,025	1,157
<b>TOTAL OPERATING REVENUES</b>	<b>60,479</b>	<b>677,097</b>	<b>384,329</b>	<b>1,121,905</b>	<b>165,648</b>
<b>OPERATING EXPENSES</b>					
Personnel services	-	154,404	93,801	248,205	19,770
Supplies	-	52,244	79,567	131,811	37,208
Contractual services and other	2,599	150,369	96,529	249,497	18,188
Depreciation	-	112,701	125,355	238,056	69,794
<b>TOTAL OPERATING EXPENSES</b>	<b>2,599</b>	<b>469,718</b>	<b>395,252</b>	<b>867,569</b>	<b>144,960</b>
<b>OPERATING INCOME (LOSS)</b>	<b>57,880</b>	<b>207,379</b>	<b>(10,923)</b>	<b>254,336</b>	<b>20,688</b>
<b>NONOPERATING REVENUES (EXPENSES)</b>					
Intergovernmental revenue	-	-	17,082	17,082	-
Tap-in fees	-	11,800	7,875	19,675	-
Interest revenues	4,034	7,180	10,166	21,380	5,419
Amortization of bond discount	(1,046)	-	-	(1,046)	-
Gain on sale of assets	-	-	-	-	2,183
Interest expense	(60,479)	(11,337)	(2,096)	(73,912)	(3,352)
<b>TOTAL NONOPERATING REVENUES (EXPENSES)</b>	<b>(57,491)</b>	<b>7,643</b>	<b>33,027</b>	<b>(16,821)</b>	<b>4,250</b>
<b>INCOME (LOSS) BEFORE TRANSFERS</b>	<b>389</b>	<b>215,022</b>	<b>22,104</b>	<b>237,515</b>	<b>24,938</b>
<b>TRANSFERS</b>					
Transfers (out)	-	(113,583)	(26,060)	(139,643)	(7,000)
<b>CHANGE IN NET ASSETS</b>	<b>389</b>	<b>101,439</b>	<b>(3,956)</b>	<b>97,872</b>	<b>17,938</b>
<b>NET ASSETS, BEGINNING OF YEAR, AS RESTATED</b>	<b>1,350,674</b>	<b>1,574,938</b>	<b>2,646,025</b>		<b>471,939</b>
<b>NET ASSETS, END OF YEAR</b>	<b>\$ 1,351,063</b>	<b>\$ 1,676,377</b>	<b>\$ 2,642,069</b>		<b>\$ 489,877</b>
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds.				<u>4,252</u>	
<b>CHANGE IN NET ASSETS OF BUSINESS-TYPE ACTIVITIES</b>				<u>\$ 102,124</u>	

The accompanying notes are an integral part of these financial statements.

**CITY OF GLADWIN  
PROPRIETARY FUNDS  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED JUNE 30, 2006**

	<b>Business-type Activities - Enterprise Funds</b>				<b>Governmental Activities</b>
	Ice Arena	Sewer	Water	Total	Internal Service
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
Receipts from customers and users	\$ 60,479	\$ 678,741	\$ 383,234	\$ 1,122,454	\$ 168,059
Payments to employees	-	(154,404)	(93,801)	(248,205)	(19,770)
Payments to suppliers	(2,599)	(195,712)	(170,554)	(368,865)	(55,131)
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	57,880	328,625	118,879	505,384	93,158
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>					
Intergovernmental revenue	-	-	17,082	17,082	-
Transfers (out)	-	(113,583)	(26,060)	(139,643)	(7,000)
Advances to other funds	-	-	11,536	11,536	-
<b>NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES</b>	-	(113,583)	2,558	(111,025)	(7,000)
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>					
Principal paid on bonds and notes payable	-	(25,320)	(4,680)	(30,000)	(40,500)
Interest paid on bonds and notes payable	(60,479)	(11,337)	(2,096)	(73,912)	(3,352)
Issuance of long-term debt	-	-	-	-	38,000
Acquisition and construction of capital assets	-	(116,263)	(165,206)	(281,469)	(62,371)
Tap-in fees	-	11,800	7,875	19,675	-
Proceeds from the sale of capital assets	-	-	-	-	2,858
<b>NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES</b>	(60,479)	(141,120)	(164,107)	(365,706)	(65,365)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Purchase of investments	(3,798)	-	-	(3,798)	-
Interest on investments	4,034	7,180	10,166	21,380	5,419
<b>NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES</b>	236	7,180	10,166	17,582	5,419
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	(2,363)	81,102	(32,504)	46,235	26,212
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	8,205	286,397	387,079	681,681	185,779
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	\$ 5,842	\$ 367,499	\$ 354,575	\$ 727,916	\$ 211,991

**Noncash Transaction:**

In the Internal Service Fund, the City received \$19,608 in capital assets via trade in.

**CITY OF GLADWIN  
PROPRIETARY FUNDS  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED JUNE 30, 2006**

	<b>Business-type Activities - Enterprise Funds</b>				<b>Governmental Activities</b>
	<u>Ice Arena</u>	<u>Sewer</u>	<u>Water</u>	<u>Total</u>	<u>Internal Service</u>
<b>Reconciliation of operating income to net cash provided (used) by operating activities:</b>					
Operating income (loss)	\$ 57,880	\$ 207,379	\$ (10,923)	\$ 254,336	\$ 20,688
Adjustments to reconcile operating income to net cash provided (used) by operating activities:					
Depreciation	-	112,701	125,355	238,056	69,794
Changes in assets and liabilities:					
Accounts receivable	-	1,644	(1,095)	549	2,411
Inventory	-	-	1,479	1,479	-
Prepaid items	-	1,391	1,361	2,752	1,247
Accounts payable	-	940	(1,211)	(271)	2,065
Accrued liabilities	-	4,570	3,913	8,483	(3,047)
<b>Net cash provided (used) by operating activities</b>	<u>\$ 57,880</u>	<u>\$ 328,625</u>	<u>\$ 118,879</u>	<u>\$ 505,384</u>	<u>\$ 93,158</u>

The accompanying notes are an integral part of these financial statements.

**CITY OF GLADWIN  
FIDUCIARY FUNDS  
STATEMENT OF FIDUCIARY NET ASSETS  
JUNE 30, 2006**

ASSETS	<u>AGENCY FUNDS</u>
Cash and cash equivalents	<u>\$ 9,931</u>
LIABILITIES	
Due to or on behalf of others	<u>\$ 9,931</u>

The accompanying notes are an integral part of these financial statements.



**CITY OF GLADWIN**  
**COMBINING STATEMENT OF NET ASSETS**  
**DISCRETELY PRESENTED COMPONENT UNITS**  
**JUNE 30, 2006**

	Downtown Development Authority	Economic Development Corporation	Gladwin Airport	Total
<b>ASSETS</b>				
Cash and investments	\$ 406,102	\$ 22,068	\$ 16,420	\$ 444,590
Accounts receivable	-	-	4,770	4,770
Deferred charges	6,667	-	-	6,667
Inventory	-	-	15,447	15,447
Prepaid expenses	-	-	3,273	3,273
Capital assets, net:				
Assets not being depreciated	19,000	-	57,000	76,000
Assets being depreciated	94,638	-	1,151,064	1,245,702
<b>TOTAL ASSETS</b>	<b>526,407</b>	<b>22,068</b>	<b>1,247,974</b>	<b>1,796,449</b>
<b>LIABILITIES</b>				
Accounts payable and accrued liabilities	2,693	-	6,383	9,076
Long-term liabilities:				
Due within one year	137,689	-	2,411	140,100
Due in more than one year	428,568	-	4,822	433,390
<b>TOTAL LIABILITIES</b>	<b>568,950</b>	<b>-</b>	<b>13,616</b>	<b>582,566</b>
<b>NET ASSETS</b>				
Investment in capital assets	-	-	1,208,064	1,208,064
Unrestricted (deficit)	(42,543)	22,068	26,294	5,819
<b>TOTAL NET ASSETS</b>	<b>\$ (42,543)</b>	<b>\$ 22,068</b>	<b>\$ 1,234,358</b>	<b>\$ 1,213,883</b>

The accompanying notes are an integral part of these financial statements.

**CITY OF GLADWIN  
COMPONENT UNITS  
COMBINING STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2006**

<b><u>Functions / Programs</u></b>	<b><u>Expenses</u></b>	<b><u>Program Revenues</u></b>		<b><u>Net (Expense) Revenues</u></b>
		<b><u>Charges for Services</u></b>	<b><u>Operating Grants and Contributions</u></b>	
<b>Component unit</b>				
Downtown Development Authority				
Governmental Activities:				
Operations	\$ 40,694	\$ -	\$ -	\$ (40,694)
Interest on long-term debt	22,300	-	-	(22,300)
Total Downtown Development Authority	62,994	-	-	(62,994)
Economic Development Corporation				
Governmental Activities:				
Operations	-	-	-	-
Gladwin Airport				
Business Type Activities:				
Operations	199,172	91,326	70,000	(37,846)
Total component units	\$ 262,166	\$ 91,326	\$ 70,000	\$ (100,840)

**CITY OF GLADWIN  
COMPONENT UNITS  
COMBINING STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2006**

	<b><u>Downtown Development Authority</u></b>	<b><u>Economic Development Corporation</u></b>	<b><u>Gladwin Airport</u></b>	<b><u>Total</u></b>
<b>Change in net assets</b>				
Net (expense) revenue	\$ (62,994)	\$ -	\$ (37,846)	\$ (100,840)
<b>General revenues:</b>				
Property taxes	357,470	-	-	357,470
Unrestricted investment earnings	10,979	526	350	11,855
Other revenue	-	-	1,170	1,170
Gain on disposal of capital assets	-	-	2,712	2,712
Total general revenues	<u>368,449</u>	<u>526</u>	<u>4,232</u>	<u>373,207</u>
Change in net assets	305,455	526	(33,614)	272,367
Net assets (deficit), beginning of year, as restated	<u>(347,998)</u>	<u>21,542</u>	<u>1,267,972</u>	<u>941,516</u>
<b>Net assets (deficit), end of year</b>	<u><u>\$ (42,543)</u></u>	<u><u>\$ 22,068</u></u>	<u><u>\$ 1,234,358</u></u>	<u><u>\$ 1,213,883</u></u>

The accompanying notes are an integral part of these financial statements.

## **NOTES TO FINANCIAL STATEMENTS**

# CITY OF GLADWIN

## NOTES TO FINANCIAL STATEMENTS

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### I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the City of Gladwin, Michigan, conform to generally accepted accounting principles as applicable to governmental units. The Governmental Accounting Standards Board is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the more significant policies.

#### A. REPORTING ENTITY

The City is organized under Michigan's Comprehensive Home Rule City Act. An eight member City Council is the governing body elected by the community at large. The community also elects the Mayor. The Council appoints a City Administrator.

As required by generally accepted accounting principles, the financial statements of the reporting entity include those of the City and its component units. The component units discussed below are included in the City's reporting entity because they are entities for which the City is considered to be financially accountable. Each discretely presented component unit is reported in a separate column in the government-wide financial statements (see note below for description) to emphasize that it is legally separate from the government.

#### **Discretely Presented Component Units**

*Downtown Development Authority (DDA)* – The City appoints a voting majority and is able to impose its will on the DDA. It has incurred specific financial burdens in the form of general obligation bonds and is responsible for compliance with federal grants received in conjunction with the DDA's projects. In accordance with Statement of Michigan Governmental Accounting and Auditing No. 5, the DDA has been discretely presented. The DDA does not issue any other formal financial statements except as contained in the City of Gladwin's Comprehensive Annual Financial Report.

*Economic Development Corporation (EDC)* – The City appoints a voting majority of the EDC Board. The primary purpose of the EDC is to encourage and assist commercial enterprises to locate and expand facilities and services to the City and its residents. In accordance with the terms of the lease contracts, the EDC in conjunction with the City issues bonds and the commercial enterprise agrees to make lease payments in amounts equal to the bond principal and interest. The bond proceeds are used to finance a project, which will benefit the commercial enterprise. The bonds are payable from the net revenues derived from the project and are collateralized by a mortgage on the project and the lease contract. The EDC financial statements are discretely presented as part of the City. The EDC does not issue any other formal financial statements except as contained in the City of Gladwin's Comprehensive Annual Financial Report.

# CITY OF GLADWIN

## NOTES TO FINANCIAL STATEMENTS

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*Gladwin Zettel Memorial Airport (Gladwin Airport)* – The City is a participant with Gladwin County in a joint venture to operate the Gladwin Zettel Memorial Airport. The City and County equally appoint the board, however, the City is able to impose its will and has assumed the obligation to provide financial support to the Airport and to finance deficits as they occur. Thus, the Airport's financial statements are discretely presented as part of the City. The Airport does not issue any other formal financial statements except as contained in the City of Gladwin's Comprehensive Annual Financial Report.

### **B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS**

The government-wide financial statements (i.e. the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government, and its component units. For the most part, the effect of the interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

### **C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements, except for agency funds, which do not have a measurement focus. Revenues are recorded when earned and expenses are recorded

# CITY OF GLADWIN

## NOTES TO FINANCIAL STATEMENTS

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when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period or within one year for reimbursement-based grants. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses, intergovernmental revenues and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental funds:

The *General Fund* is the principal operating fund of the City. It is used to account for all revenues, expenditures, and activities not specifically accounted for in another fund.

The *Downtown Development Project Fund* accounts for financial resources to be used for the acquisition or construction of major capital facilities, except for those financed by proprietary funds.

The government reports the following major proprietary funds:

The *Ice Arena Fund* accounts for the City's operation of the Community Ice Arena.

The *Sewer Fund* accounts for the activities of collecting and treating waste waters.

The *Water Fund* accounts for the costs of providing water services to City residents.

# CITY OF GLADWIN

## NOTES TO FINANCIAL STATEMENTS

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Additionally, the City reports the following fund types:

The *Internal Service Fund* accounts for vehicle and equipment use and management services provided to other departments of the City on a cost reimbursement basis.

The *Agency Fund* accounts for assets held by the City acting as an agent for individuals and/or other entities.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this rule are payments of utility charges between the City's water and sewer function and various other functions of the City. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise funds and the internal service fund are charges to customers for sales and services. The water fund also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds and the internal service fund include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.



# **CITY OF GLADWIN**

## **NOTES TO FINANCIAL STATEMENTS**

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### **D. ESTIMATES**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

### **E. ASSETS, LIABILITIES AND NET ASSETS OR EQUITY**

#### **1. DEPOSITS AND INVESTMENTS**

The City has defined cash and cash equivalents to include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Additionally, each fund's equity in the City's investment pool is treated as a cash equivalent because the funds can deposit or effectively withdraw cash at any time without prior notice or penalty. Shared pooled investment income is allocated to each fund based on its percentage of the balance in the pool.

#### **2. RECEIVABLES AND PAYABLES**

All receivables are recorded at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible.

Activity between funds that are representative of lending / borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to / from other funds" (i.e., the current portion of interfund loans) or "advances to / from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to / from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances".

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

#### **3. INVENTORIES AND PREPAID ITEMS**

In the enterprise funds, inventories are valued at cost using either the first-in, first-out or specific identification method. The costs of inventories in the governmental funds are recorded as expenditures when purchased, which is the purchase method.

# CITY OF GLADWIN

## NOTES TO FINANCIAL STATEMENTS

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Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

### 4. CAPITAL ASSETS

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, curbs and gutters, streets, sidewalks, drainage systems, lighting systems and similar assets that are immovable and of value only to the City), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. In the case of the initial capitalization of general infrastructure assets (i.e., those reported by governmental activities) the City chose to include all roads and streets regardless of their acquisition date or amount.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects when constructed. Capital assets of the City are depreciated using the straight line method over the following estimated useful lives:

Land improvements	20 years
Buildings	30 years
Storage sheds	10 years
Building improvements	10 years
Equipment – heavy	20-30 years
Equipment – light	5-10 years
Water and sewer lines	30 years
Storm sewer	50 years
Disposal systems	30 years
Roads and other infrastructure	3-50 years
Police cruisers	5 years
Trucks	10 years
Radio equipment	5 years
Office equipment	3-5 years

# **CITY OF GLADWIN**

## **NOTES TO FINANCIAL STATEMENTS**

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### **5. LONG-TERM OBLIGATIONS**

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable government activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

### **6. FUND EQUITY**

Reserves represent those portions of fund equity not appropriable for expenditure or legally segregated for a specific future use. Designated fund balances represent tentative plans for future use of financial resources.

### **7. INTERFUND TRANSACTIONS**

During the course of normal operations, the City has numerous transactions between funds, including expenditures and transfers of resources to provide services and to service debt. The accompanying financial statements generally reflect such transactions as transfers. Subsidies are also recorded as transfers.

An internal Service Fund is used and records charges for services to all City departments and funds as operating revenue. All affected City funds record these payments to the Internal Service Fund as operating expenditures or expenses.

### **8. COMPENSATED ABSENCES**

The City's policy allows employees to accumulate earned but unused vacation benefits. Accumulated sick and vacation is accrued when incurred in the proprietary funds. A liability for these amounts is reported in governmental funds only if they matured, for example, as a result of employee resignations and retirements.

# CITY OF GLADWIN

## NOTES TO FINANCIAL STATEMENTS

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The portion of unpaid sick and vacation pay that is applicable to governmental fund types is reported in the Statement of Net Assets.

### II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

#### A. BUDGETS AND BUDGETARY ACCOUNTING

Annual budgets are adopted for the General Fund and all Special Revenue Funds. The City administrator submits to the City Council a proposed operating budget for the fiscal year commencing July 1. The operating budget includes proposed expenditures and the means of financing them. Budgets are prepared on a basis consistent with the accounting basis utilized by the fund. Public hearings are conducted to obtain taxpayer comments. Prior to July 1, the budget is legally enacted through a resolution passed by the City Council. The budget and approved appropriations lapse at the end of the fiscal year. The City does not maintain a formal encumbrance accounting system. The budgets are adopted on a functional basis. Expenditures may not legally exceed the budgeted amounts by function for these funds. The City Administrator may revise the budget to the extent that expenditures of a department/activity are not altered by an amount in excess of \$5,000. Any revisions that alter the total expenditures of the department/activity in excess of \$5,000 require approval by the Council.

Comparisons to budget are presented as required by generally accepted accounting principles for all governmental funds for which budgets were legally adopted. Budgets are adopted on a basis consistent with generally accepted accounting principles.

#### B. EXCESS OF EXPENDITURES OVER APPROPRIATIONS FOR BUDGETARY FUNDS

Public Act 621 of 1978, as amended, provides that a local unit shall not incur expenditures that are in excess of the amount appropriated. During the year ended June 30, 2006, the City incurred expenditures in certain budgetary funds, which were in excess of the amounts appropriated as follows:

<u>Fund</u>	<u>Budgeted Expenditures</u>	<u>Actual Expenditure</u>	<u>Excess Expenditures</u>
<b>General Fund:</b>			
General government	\$ 528,003	\$ 537,697	\$ (9,694)
Cemetery	66,300	67,727	(1,427)

# CITY OF GLADWIN

## NOTES TO FINANCIAL STATEMENTS

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### III. DETAILED NOTES ON ALL FUNDS

#### A. DEPOSITS AND INVESTMENTS

A reconciliation of cash, pooled investments and investments as shown in the basic financial statement for the City's deposits and investments is as follows:

	<b><u>Carrying Amount</u></b>
Government-wide Financial Statement Captions:	
Primary Government:	
Cash and cash equivalents	\$ 1,550,374
Investments	499,684
Component Units:	
Cash and cash equivalents	444,590
Fiduciary Fund Financial Statement Captions:	
Cash and cash equivalents	<u>9,931</u>
 Total	 <u><u>\$ 2,504,579</u></u>
 Notes to Financial Statements:	
Deposits	\$ 2,096,530
Investments	407,299
Cash on hand	<u>750</u>
 Total	 <u><u>\$ 2,504,579</u></u>

#### *Statutory Authority*

The City is authorized by the State to invest surplus funds in the following:

- Bonds, securities, repurchase agreements and other obligations of the United States or an agency or instrumentality of the United States.
- Certificates of deposit, savings accounts, deposit accounts or depository receipts of a financial institution.
- Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase.
- Bankers' acceptances of United States banks.

# CITY OF GLADWIN

## NOTES TO FINANCIAL STATEMENTS

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- Obligations of the State of Michigan and its political subdivisions that, at the time of purchase are rated as investment grade by at least one standard rating service.
- Mutual funds registered under the Investment Company Act of 1940 with authority to purchase only investment vehicles that are legal for direct investment by a public corporation.
- External investment pools as authorized by Public Act 20 as amended through 12/31/97.

### **Deposits and investments**

The City chooses to disclose its investments by specifically identifying each. As of June 30, 2006, the City had the following investments.

<b><u>Investment</u></b>	<b><u>Maturity</u></b>	<b><u>Fair Value</u></b>	<b><u>Rating</u></b>
MBIA Michigan CLASS pool	n/a	\$ 407,299	AAA / V1+

### ***Investment and deposit risk***

*Interest Rate Risk.* State law limits the allowable investments and the maturities of some of the allowable investments as identified in the list of authorized investments above. The City's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

*Credit Risk.* The City's investment policy does not have specific limits in excess of state law on investment credit risk. The City's investment in the MBIA Michigan CLASS pool is rated AAA / V1+ by Fitch.

*Custodial Credit Risk – Deposits.* Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned. State law does not require and the City does not have a policy for deposit custodial credit risk. As of year end \$2,312,394 of the City's bank balance of \$2,526,847 was exposed to custodial credit risk because it was uninsured and uncollateralized.

# CITY OF GLADWIN

## NOTES TO FINANCIAL STATEMENTS

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*Custodial Credit Risk – Investments.* For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State law does not require and the City does not have a policy for investment custodial credit risk. The City's investment is in the MBIA Michigan CLASS pool, not the securities that make up the pool. Therefore, there is no custodial credit risk to be disclosed.

*Concentration of Credit Risk.* State law limits allowable investments but does not limit concentration of credit risk as identified in the list of authorized investments above. The City's investment policy does not have specific limits in excess of state law on concentration of credit risk. Pooled investments are excluded from the 5% disclosure requirement.

### **B. RECEIVABLES**

Receivables in the primary government and component units are as follows:

	Governmental Activities	Business-type Activities	Component Units
Accounts	\$ 45,412	\$ 114,105	\$ 4,770
Leases			
Due within one year	-	89,559	-
Due after one year	-	2,295,521	-
Intergovernmental	221,753	295,257	-
Total	<u>\$ 267,165</u>	<u>\$ 2,794,442</u>	<u>\$ 4,770</u>

# CITY OF GLADWIN

## NOTES TO FINANCIAL STATEMENTS

### C. CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2006 was as follows:

#### Primary Government

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>Ending Balance</u>
<b>Governmental activities</b>				
Capital assets not being depreciated:				
Land	\$ 370,625	\$ -	\$ -	\$ 370,625
Construction in progress	<u>1,719,579</u>	<u>778,653</u>	<u>(1,911,624)</u>	<u>586,608</u>
Total capital assets not being depreciated	<u>2,090,204</u>	<u>778,653</u>	<u>(1,911,624)</u>	<u>957,233</u>
Capital assets being depreciated:				
Land improvements	446,098	-	-	446,098
Buildings	660,300	-	-	660,300
Building improvements	59,849	-	-	59,849
Equipment and vehicles	939,203	100,676	(104,415)	935,464
Infrastructure	<u>12,202,256</u>	<u>2,132,755</u>	<u>-</u>	<u>14,335,011</u>
Total capital assets being depreciated	<u>14,307,706</u>	<u>2,233,431</u>	<u>(104,415)</u>	<u>16,436,722</u>
Less accumulated depreciation				
Land improvements	(37,194)	(21,891)	-	(59,085)
Buildings	(364,684)	(20,361)	-	(385,045)
Building improvements	(25,321)	(5,985)	-	(31,306)
Equipment and vehicles	(617,162)	(74,299)	87,333	(604,128)
Infrastructure	<u>(7,886,340)</u>	<u>(297,234)</u>	<u>-</u>	<u>(8,183,574)</u>
Total accumulated depreciation	<u>(8,930,701)</u>	<u>(419,770)</u>	<u>87,333</u>	<u>(9,263,138)</u>
Total capital assets being depreciated, net	<u>5,377,005</u>	<u>1,813,661</u>	<u>(17,082)</u>	<u>7,173,584</u>
<b>Governmental activities capital assets, net</b>	<u>\$ 7,467,209</u>	<u>\$ 2,592,314</u>	<u>\$ (1,928,706)</u>	<u>\$ 8,130,817</u>



# CITY OF GLADWIN

## NOTES TO FINANCIAL STATEMENTS

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>Ending Balance</u>
<b>Business-type activities</b>				
Capital assets not being depreciated:				
Land	\$ 33,200	\$ -	\$ -	\$ 33,200
Construction in progress	<u>2,698</u>	<u>214,374</u>	<u>-</u>	<u>217,072</u>
Total capital assets not being depreciated	<u>35,898</u>	<u>214,374</u>	<u>-</u>	<u>250,272</u>
Capital assets being depreciated:				
Land improvements	95,324	-	-	95,324
Buildings	903,049	6,913	-	909,962
Equipment and vehicles	283,345	4,688	-	288,033
Infrastructure	<u>8,426,788</u>	<u>55,494</u>	<u>-</u>	<u>8,482,282</u>
Total capital assets being depreciated	<u>9,708,506</u>	<u>67,095</u>	<u>-</u>	<u>9,775,601</u>
Less accumulated depreciation				
Land improvements	(80,161)	(3,180)	-	(83,341)
Buildings	(508,461)	(25,007)	-	(533,468)
Equipment and vehicles	(191,743)	(28,240)	-	(219,983)
Infrastructure	<u>(5,564,158)</u>	<u>(181,629)</u>	<u>-</u>	<u>(5,745,787)</u>
Total accumulated depreciation	<u>(6,344,523)</u>	<u>(238,056)</u>	<u>-</u>	<u>(6,582,579)</u>
Total capital assets being depreciated, net	<u>3,363,983</u>	<u>(170,961)</u>	<u>-</u>	<u>3,193,022</u>
<b>Business-type activities capital assets, net</b>	<u>\$ 3,399,881</u>	<u>\$ 43,413</u>	<u>\$ -</u>	<u>\$ 3,443,294</u>

Depreciation expense was charged to functions/programs of the primary government as follows:

**Governmental activities:**

General government	\$ 13,046
Public works	374,020
Recreation and culture	<u>32,704</u>

**Total depreciation expense – governmental activities** **\$ 419,770**

# CITY OF GLADWIN

## NOTES TO FINANCIAL STATEMENTS

**Business-type activities:**

Sewer	\$ 112,701
Water	<u>125,355</u>

**Total depreciation expense – business-type activities**      **\$ 238,056**

**Discretely presented component units**

Activity for the Airport for the year ended June 30, 2006, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>Ending Balance</u>
Capital assets not being depreciated:				
Land	\$ 57,000	\$ -	\$ -	\$ 57,000
Capital assets being depreciated:				
Land improvements	1,210,754	-	-	1,210,754
Equipment and vehicles	<u>40,728</u>	<u>19,869</u>	<u>(19,007)</u>	<u>41,590</u>
Total capital assets being depreciated	<u>1,251,482</u>	<u>19,869</u>	<u>(19,007)</u>	<u>1,252,344</u>
Less accumulated depreciation				
Land improvements	(38,207)	(40,358)	-	(78,565)
Equipment and vehicles	<u>(23,342)</u>	<u>(2,699)</u>	<u>3,326</u>	<u>(22,715)</u>
Total accumulated depreciation	<u>(61,549)</u>	<u>(43,057)</u>	<u>3,326</u>	<u>(101,280)</u>
Total capital assets being depreciated, net	<u>1,189,933</u>	<u>(23,188)</u>	<u>(15,681)</u>	<u>1,151,064</u>
<b>Component Unit capital assets, net</b>	<u>\$ 1,246,933</u>	<u>\$ (23,188)</u>	<u>\$ (15,681)</u>	<u>\$ 1,208,064</u>

# CITY OF GLADWIN

## NOTES TO FINANCIAL STATEMENTS

Activity for the Downtown Development Authority for the year ended June 30, 2006, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>Ending Balance</u>
Capital assets not being depreciated:				
Land	\$ 19,000	\$ -	\$ -	\$ 19,000
Total capital assets not being depreciated	<u>19,000</u>	<u>-</u>	<u>-</u>	<u>19,000</u>
Capital assets being depreciated:				
Equipment and vehicles	98,368	-	-	98,368
Infrastructure	<u>-</u>	<u>54,604</u>	<u>-</u>	<u>54,604</u>
Total capital assets being depreciated	<u>98,368</u>	<u>54,604</u>	<u>-</u>	<u>152,972</u>
Less accumulated depreciation				
Equipment and vehicles	(53,199)	(4,918)	-	(58,117)
Infrastructure	<u>-</u>	<u>(217)</u>	<u>-</u>	<u>(217)</u>
Total accumulated depreciation	<u>(53,199)</u>	<u>(5,135)</u>	<u>-</u>	<u>(58,334)</u>
Total capital assets being depreciated, net	<u>45,169</u>	<u>49,469</u>	<u>-</u>	<u>94,638</u>
<b>Component Unit capital assets, net</b>	<u><u>\$ 64,169</u></u>	<u><u>\$ 49,469</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 113,638</u></u>

### D. PAYABLES

Accounts payable and accrued liabilities in the primary government are as follows:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Component Units</u>
Accounts	\$ 35,606	\$ 12,287	\$ 4,133
Wages, fringe benefits and other accrued liabilities	47,713	10,998	2,250
Accrued interest payable	<u>38,081</u>	<u>12,184</u>	<u>2,693</u>
Total	<u><u>\$ 121,400</u></u>	<u><u>\$ 35,469</u></u>	<u><u>\$ 9,076</u></u>

# CITY OF GLADWIN

## NOTES TO FINANCIAL STATEMENTS

### E. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

	<b>Due from:</b>
	Downtown Development Project
<b>Due to:</b>	
General Fund	<u>\$ 25,881</u>

Interfund receivables and payables as of June 30, 2006 consist of \$25,881 that is due from the Downtown Development Project fund to the General fund to eliminate a negative cash balance.

	<b>Transfer from:</b>				
<b>Transfer to:</b>	Nonmajor Governmental	Sewer	Water	Internal Service	<b>Total</b>
General	\$ 36,940	\$ 18,000	\$ 15,000	\$ 7,000	\$ 76,940
Downtown Development Project	71,312	-	11,060	-	82,372
Nonmajor Governmental	25,000	95,583	-	-	120,583
Sewer	-	-	-	-	-
Water	-	-	-	-	-
<b>Total</b>	<u>\$ 133,252</u>	<u>\$ 113,583</u>	<u>\$ 26,060</u>	<u>\$ 7,000</u>	<u>\$ 279,895</u>

Interfund transfers include transfer of unrestricted revenues collected to finance various programs accounted for in other funds, in accordance with budgetary authorizations; and, transfer of revenues to fund joint participation in capital projects as required by grant agreements.

# CITY OF GLADWIN

## NOTES TO FINANCIAL STATEMENTS

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### F. LEASE ACTIVITIES

The City's leasing operations consist exclusively of leasing the public ice arena to the Gladwin Community Arena, a nonprofit corporation. This lease is classified as a direct financing lease which continues to November 2028.

The following lists the components of the net investment in direct financing leases as of June 30, 2006:

Total Minimum Lease Payments to be Received	\$ 2,041,804
Estimated Residual Value of Leased Property	<u>593,750</u>
	2,635,554
Less: Unearned Income	<u>(250,474)</u>
Total Net Investment in Lease	<u>\$ 2,385,080</u>

Minimum lease payments do not include amounts that may be received as stipulated in the lease contract for administration costs or operational expenses of the City incidental to the issuance and payment of bonds used to finance construction of the arena. These contingent rental payments occur only if costs are incurred by the City. At June 30, 2006, minimum lease payments are as follows:

Year Ended <u>June 30,</u>	<u>Amount</u>
2007	\$ 89,788
2008	88,393
2009	86,968
2010	85,528
2011	88,951
2012-2016	431,999
2017-2021	429,766
2022-2026	428,844
2027-2029	<u>259,886</u>
Total	<u>\$ 1,990,123</u>

# CITY OF GLADWIN

## NOTES TO FINANCIAL STATEMENTS

### G. LONG-TERM DEBT

#### Changes in Long-Term Debt

Long-term liability activity for the year ended June 30, 2006 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due within One Year</u>
Primary Government					
Governmental activities:					
General obligation bonds:					
\$1,525,000 1996 Water/Sewer Improvement bonds due in annual installments ranging from \$25,000 to \$120,000 through 2020; interest ranging from 5.70% to 6.00%	\$ 1,365,000	\$ -	\$ (35,000)	\$1,330,000	\$ 50,000
Less deferred discounts	(14,526)	-	908	(13,618)	(908)
\$1,250,000 2004 Sewer Improvement bonds due in annual installments ranging from \$40,000 to \$95,000 through 2025; interest ranging from 2.5% to 5.1%	1,250,000	-	(40,000)	1,210,000	40,000
\$150,000 2003 Truck Installment bonds due in annual installments of \$21,500 through 2009; interest at 4.25%	107,000	-	(21,500)	85,500	21,500
\$38,000 Elgin Pelican Street Sweeper. Annual installments through 2007 of \$19,000; interest at 0%	-	38,000	(19,000)	19,000	19,000
Vested benefits payable	42,205	64,552	(44,623)	62,134	44,623
	<u>\$ 2,749,679</u>	<u>\$ 102,552</u>	<u>\$ (159,215)</u>	<u>\$2,693,016</u>	<u>\$ 174,215</u>

# CITY OF GLADWIN

## NOTES TO FINANCIAL STATEMENTS

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due within One Year</u>
Business-type activities					
General obligation bonds:					
\$450,000 1997 Water Supply and Sewage bonds due in annual installments ranging from \$25,000 to \$40,000 through 2013; interest ranging from 4.30% to 5.40%	\$ 270,000	\$ -	\$ (30,000)	\$ 240,000	\$ 30,000
Revenue bonds:					
\$1,150,000 1999 Ice Arena Revenue bonds due in annual installments ranging from \$30,000 to \$85,000 through 2028; interest ranging from 4.60% to 5.40%	1,150,000	-	-	1,150,000	30,000
Less deferred discounts	(25,109)	-	1,047	(24,062)	-
Vested benefits payable	<u>10,200</u>	<u>12,630</u>	<u>(14,891)</u>	<u>7,939</u>	<u>7,939</u>
	<u>\$ 1,405,091</u>	<u>\$ 12,630</u>	<u>\$ (43,844)</u>	<u>\$1,373,877</u>	<u>\$ 67,939</u>
Component Units					
Gladwin Airport					
\$13,055.04 Contract payable for a tractor due in annual installments from \$1,000 to \$2,411 through 2008; interest at 5%	9,644	-	(2,411)	7,233	2,411
Downtown Development Authority:					
\$1,250,000 1993 DDA GO Bonds due in annual installments ranging from \$25,000 to \$150,000 through 2008; interest at 5.30%	\$ 400,000	\$ -	\$ (125,000)	\$ 275,000	\$ 125,000
Less deferred discounts	(6,000)	-	2,000	(4,000)	(2,000)
Long-term advances	<u>351,793</u>	<u>-</u>	<u>(56,536)</u>	<u>295,257</u>	<u>12,689</u>
	<u>\$ 755,437</u>	<u>\$ -</u>	<u>\$ (181,947)</u>	<u>\$ 573,490</u>	<u>\$ 138,100</u>

### Primary Government

The City issues general obligation and revenue bonds to provide funds for the acquisition and / or construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the government. Revenue bonds involve a pledge of specific income derived from the acquired or constructed assets to pay debt service.

# CITY OF GLADWIN

## NOTES TO FINANCIAL STATEMENTS

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For governmental activities, vested benefits payable are generally liquidated from the General Fund.

Annual debt service requirements to maturity for general obligation and revenue bonds are as follows:

### Primary Government:

Year Ended June 30,	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2007	\$ 130,500	\$ 133,524	\$ 60,000	\$ 71,651
2008	121,500	128,470	60,000	68,718
2009	121,500	123,049	60,000	65,741
2010	131,000	117,228	65,000	62,602
2011	115,000	110,934	70,000	59,179
2012-2016	720,000	454,103	270,000	246,309
2016-2021	955,000	221,914	245,000	184,766
2022-2026	350,000	36,675	320,000	108,844
2027-2029	-	-	240,000	19,886
Total	<u>\$ 2,644,500</u>	<u>\$ 1,325,897</u>	<u>\$ 1,390,000</u>	<u>\$ 887,696</u>

### Component Units:

Year Ended June 30,	Principal	Interest
2007	\$ 125,000	\$ 16,163
2008	150,000	8,850
Total	<u>\$ 275,000</u>	<u>\$ 25,013</u>

## IV. OTHER INFORMATION

### A. RISK MANAGEMENT

The City participates in a public entity risk (insurance) pool with other local units of government in the Michigan Municipal Liability and Property Pool. This self insurance plan provided members with loss protection for property damage and general liability.

The City made contributions of \$49,054 for the year ended June 30, 2006.

When a claim is incurred and/or paid, the member's loss contribution account is charged or credited according to the member's actual loss experience; no obligation is credited for



# CITY OF GLADWIN

## NOTES TO FINANCIAL STATEMENTS

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another member's losses. If contributions are in excess of actual expenses and reserves, future contributions are decreased. Should any member have more losses paid on their behalf than contributions covering such losses, credit is extended within the association joint loss fund; such a deficit is repaid by the member in future contributions.

The plan does not maintain separate funds for members and consequently the City's share of total assets and total equity is unknown. Audited financial statements of the plan are available.

### **B. EMPLOYEE RETIREMENT SYSTEMS**

#### ***Defined Contribution Pension Plans***

The City has established various defined contribution pension plans under Section 401(a) of the Internal Revenue Service Code. The plans cover all full-time City employees (except the City Administrator and Police Chief or those covered by the MERS Plan) who have passed their twenty-first birthday and have been employed by the City for more than one year. For the fiscal year ended June 30, 2006, the cost to the City amounted to \$18,913 and contributions from covered employees amounted to \$12,598.

The City's policy is to fund accrued pension costs representing approximately 8% of the annual salaries of covered employees. Covered employees contribute an additional 3% of their salaries. Benefits accrue in each employee's individual account. These amounts are not available to the general creditors of the City; therefore, these assets are not reported in the City's financial statements.

The various plans and deviations from the above general policy are summarized as follows:

The City DPW workers are covered under the Steelworkers Pension Program and through the ICMA Retirement Corporation. The City contributes 7% of gross wages to the Steelworkers Pension Program and 1% of gross wages to the ICMA-RC. Employees contribute 3% of gross wages to the ICMA-RC 401(a) Plan. Benefits accrue in each employee's individual account.

Beginning in 1999, the City established a defined contribution pension for police administrative employees with the ICMA Retirement Corporation, which currently only the Police Chief participates in. Under this plan police administrative employees are fully vested when admitted to the plan. The City has defined the contribution rate of 10% of gross wages paid to covered employees and employees are not required to contribute any additional amount. Benefits accrue in each employee's individual account.

# CITY OF GLADWIN

## NOTES TO FINANCIAL STATEMENTS

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Beginning in 2002, the City established a defined contribution pension for existing employees not covered by other plans. The City contributes 8% of gross wages to the ICMA Retirement Corporation. Employees contribute 3% of gross wages to the plan. Benefits accrue in each employee's individual account.

### ***Defined Benefit Pension Plan***

Beginning in July 2002, the City opted to contribute to the Municipal Employees Retirement System of Michigan (MERS), an agent multiple-employer public employee retirement system administered by the MERS Retirement Board. The system provides retirement, disability and death benefits to plan members and their beneficiaries. Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefit provisions of the participants in MERS. The Municipal Employees Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to the Municipal Employees Retirement System of Michigan, 1134 Municipal Way, Lansing, Michigan 48917 or by calling (800) 767-6377. The employees included in this plan are the Police and Administrative Office personnel.

### **Funding Policy**

The City is required to contribute at an actuarially determined rate; the current rate is 5.13% of annual covered payroll for general employees and 8.14% of annual covered payroll for police and administrative employees. City employees are required to contribute 3% of their annual covered payroll. Employee contributions for the year ended June 30, 2006 amounted to \$8,305. The contribution requirements of the City are established and may be amended by the Retirement Board of MERS. The contribution requirements of plan members are established and may be amended by the City, depending on the MERS contribution program adopted by the City.

### **Annual Pension Cost**

For the year ended June 30, 2006, the City's annual pension cost of \$21,382 for MERS was equal to the City's required and actual contributions. The required contribution was determined as part of an actuarial valuation at December 31, 2003. The actuarial assumptions include (a) a rate of return on the investment of present and future assets of 8.0%, (b) projected salary increases of 4.5% for inflation, plus a percentage based on an age-related scale to reflect merit, longevity and promotional salary increases and (c) the assumption that benefits will not increase after retirement.

The funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as a percentage of annual covered payroll, are designed to accumulate sufficient assets to pay benefits when due. The normal cost and amortization payment for the year was determined using an attained age actuarial funding method. Unfunded actuarial accrued liabilities, if any, are amortized as a level percentage of payroll over a period of thirty years.

# CITY OF GLADWIN

## NOTES TO FINANCIAL STATEMENTS

### Three-Year Trend Information

<b>Fiscal Year Ending</b>	<b>Annual Pension Cost (APC)</b>	<b>Percentage of APC Contributed</b>	<b>Net Pension Obligation</b>
6/30/04	\$23,228	100%	\$0
6/30/05	22,698	100	0
6/30/06	21,382	100	0

### Schedule of Funding Progress

<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Assets (a)</b>	<b>Actuarial Accrued Liability (AAL) -Attained Age (b)</b>	<b>Unfunded AAL (UAAL) (b-a)</b>	<b>Funded Ratio (a/b)</b>	<b>Covered Payroll (c)</b>	<b>UAAL as a Percentage of Covered Payroll (b-a/c)</b>
09/30/03	\$ 264,213	\$ 237,140	\$ (27,073)	111.4%	\$ 260,813	N/A
12/31/04	310,138	261,407	(48,731)	118.6%	228,200	N/A
12/31/05	358,644	317,747	(40,897)	112.9%	282,449	N/A

### C. JOINT VENTURE – FIRE BOARD

The City is a member of the Gladwin Rural Urban Fire Protection District. The joint venture was established January 1, 1973 for the purpose of providing fire protection to its members of local governments: City of Gladwin and the Townships of Buckeye, Gladwin, Grout, Hay, Sherman, and Sage located in Gladwin County. The City and Townships each appoint two members to the joint venture's governing board; this board then determines and approves the annual budget.

The following is summary financial information for the Gladwin Rural Urban Fire Protection District as of December 31, 2005 (latest available audited financial statements).

Total Assets	\$ 974,479
Total Liabilities	244
Total Equity	974,235
Revenues	307,152
Expenses	279,092
Net increase (decrease) in net assets	28,060

The City's share of total assets and total equity is unknown. Audited financial statements of the Fire Board are available upon written request at City Hall.

# **CITY OF GLADWIN**

## **NOTES TO FINANCIAL STATEMENTS**

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### **D. PROPERTY TAXES**

Property taxes are levied each July 1 (lien date) on the taxable valuation of property located in the City as of the preceding December 31. Taxes are considered past due on July 31, at which time applicable penalties and interest are assessed. Assessed values are established annually by the City and are equalized by the State at an estimated 50 percent of current market value. Taxable values change annually, due to the Consumer Price Index (CPI) and any construction added to the property. Real and personal property in the City for the 2005 levy had a taxable value of \$56,712,918. The City's operating tax rate for the 2005 levy, collected in fiscal year 2005/06, was 14.6457 mills.

### **E. RELATED PARTY TRANSACTIONS**

The City has entered into various transactions with Alward Electric. A City Council member's immediate family has an ownership interest in this company. The transactions are for various services and for amounts ranging from \$2 up to \$1,927 individually and totaling \$23,697 for the year ended June 30, 2006.

A board member of the Downtown Development Authority Component Unit is a Senior VP of Chemical Bank, in which both the component unit and the City do a substantial amount of banking transactions.

### **F. CONTINGENCIES**

The City receives financial assistance from other governmental agencies in the form of grants. The disbursements of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the City. However, in the opinion of management, any such disallowed claims will not have a material effect on any financial statements herein or on the overall position of the City.

The City is a subject to various legal proceedings arising in the course of providing public services to City residents. However, in the opinion of the City's attorney and management, the resolution of these matters will not have a material effect, if any, on the financial condition of the City.

The City and the Department of Environmental Quality (DEQ) have agreed that the City will take various actions to prevent further violations of the Natural Resources and Environmental Protection Act and correct existing noncompliance related to combined sewer separation. The cost to take such action is expected to be substantial and could have a significant impact on the financial condition of the City if outside funding, in the form of

# CITY OF GLADWIN

## NOTES TO FINANCIAL STATEMENTS

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Federal and State grants, cannot be obtained. As of June 30, 2006, the City estimates that the separation project is approximately 90% complete.

### G. RESTATEMENTS

For the City's General Fund, an adjustment was made to eliminate the prior year fund balance of the Drug Law Enforcement Fund, which is now reported as a separate fund. The establishment of the Drug Law Enforcement fund as a separate fund had the following effect on the beginning fund balance:

Beginning fund balance, as previously reported	\$ 476,312
Adjustment for Drug Law Enforcement fund balance	<u>(12,290)</u>
Beginning fund balance, as restated	<u>\$ 464,022</u>

For the City's Drug Law Enforcement Fund, an adjustment was made to establish the Drug Law Fund as a separate fund and had the following effect on the beginning fund balance:

Beginning fund balance, as previously reported	\$ -
Adjustment for establishment of fund	<u>12,290</u>
Beginning fund balance, as restated	<u>\$ 12,290</u>

For the City's Sewer Fund, an adjustment was made to eliminate over depreciation of assets in the prior year, for which the net effect caused the City's expenses to be overstated and their assets to be understated. This error has been corrected and had the following effect on the beginning net assets:

Beginning net assets, as previously reported	\$ 1,530,736
Adjustment for over depreciation	<u>44,202</u>
Beginning net assets, as restated	<u>\$ 1,574,938</u>

# CITY OF GLADWIN

## NOTES TO FINANCIAL STATEMENTS

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For the City's Downtown Development Authority, an adjustment was made to eliminate Downtown Development Authority capital assets from governmental activities. This error has been corrected and had the following effect on the beginning net assets:

Beginning net assets, as previously reported	\$ (412,167)
Adjustment for DDA capital assets	<u>64,169</u>
Beginning net assets, as restated	<u>\$ (347,998)</u>

For the Governmental Activities on the Statement of Net Assets for the year ended June 30, 2005 errors were made in accounting for capital assets and depreciation that affect beginning of the year net assets. These errors have been corrected and had the following effect on the beginning net assets:

Beginning net assets, as previously reported	\$ 5,807,187
Adjustment for DDA capital assets	(64,169)
Adjustment for construction in progress excluded in prior year	267,501
Adjustment for over depreciation	<u>228,889</u>
Beginning net assets, as restated	<u>\$ 6,239,408</u>

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## **SUPPLEMENTARY INFORMATION**

**COMBINING AND INDIVIDUAL  
FUND FINANCIAL STATEMENTS  
AND SCHEDULES**



**CITY OF GLADWIN  
NONMAJOR GOVERNMENTAL FUNDS  
COMBINING BALANCE SHEET  
JUNE 30, 2006**

		<b>SPECIAL REVENUE FUNDS</b>					
		Major Streets	Local Streets	City Streets	Skate Park	Liquor Law Enforcement	Drug Law Enforcement
<b>ASSETS</b>							
Cash and cash equivalents	\$	164,529	\$ 12,588	\$ 69,277	\$ 56,783	\$ 4,474	\$ 21,680
Investments	-	-	-	-	-	-	-
Accounts receivable	-	-	-	-	-	-	-
Due from other governments	27,234	11,847	-	-	-	-	-
<b>TOTAL ASSETS</b>	<b>\$</b>	<b>191,763</b>	<b>\$ 24,435</b>	<b>\$ 69,277</b>	<b>\$ 56,783</b>	<b>\$ 4,474</b>	<b>\$ 21,680</b>
<b>LIABILITIES AND FUND BALANCES</b>							
<b>LIABILITIES</b>							
Accounts payable	\$	1,256	\$ -	\$ -	\$ -	\$ -	\$ -
Accrued liabilities	767	1,285	-	-	-	-	-
<b>TOTAL LIABILITIES</b>	<b>2,023</b>	<b>1,285</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>FUND BALANCES</b>							
Reserved for debt service	-	-	-	-	-	-	-
Reserved for cemetery perpetual care	-	-	-	-	-	-	-
Designated for drug enforcement	-	-	-	-	-	-	21,680
Unreserved, undesignated	189,740	23,150	69,277	56,783	4,474	-	-
<b>TOTAL FUND BALANCES</b>	<b>189,740</b>	<b>23,150</b>	<b>69,277</b>	<b>56,783</b>	<b>4,474</b>	<b>21,680</b>	<b>-</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 191,763</b>	<b>\$ 24,435</b>	<b>\$ 69,277</b>	<b>\$ 56,783</b>	<b>\$ 4,474</b>	<b>\$ 21,680</b>	<b>-</b>

DEBT SERVICE FUNDS		PERMANENT FUND		
2004				
County	Sewer			
DPW Lease	Improvement	Cemetery		
Debt	Debt	Trust	Total	
\$ 214,476	\$ 943	\$ 23,400	\$ 568,150	
-	-	92,385	92,385	
-	-	188	188	
-	-	-	39,081	
\$ 214,476	\$ 943	\$ 115,973	\$ 699,804	

\$ -	\$ -	\$ -	\$ 1,256	
-	-	-	2,052	

-	-	-	3,308	
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214,476	943	-	215,419	
-	-	115,973	115,973	
-	-	-	21,680	
-	-	-	343,424	

214,476	943	115,973	696,496	
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\$ 214,476	\$ 943	\$ 115,973	\$ 699,804	
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**CITY OF GLADWIN  
NONMAJOR GOVERNMENTAL FUNDS  
COMBINING STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

	<b>SPECIAL REVENUE FUNDS</b>					
	Major Streets	Local Streets	City Streets	Skate Park	Liquor Law Enforcement	Drug Law Enforcement
<b>REVENUES</b>						
Taxes	\$ -	\$ -	\$ 102,449	\$ -	\$ -	\$ -
Intergovernmental:						
Local law enforcement block grant	-	-	-	-	-	10,000
Gas and weight tax	164,943	71,754	-	-	-	-
Act 48 maintenance fees	10,789	-	-	-	-	-
Liquor license fees	-	-	-	-	4,459	-
Charges for services	-	-	-	-	-	-
Interest	4,138	375	928	287	15	197
Other revenue	6,049	-	361	47,823	-	2,568
<b>TOTAL REVENUES</b>	<b>185,919</b>	<b>72,129</b>	<b>103,738</b>	<b>48,110</b>	<b>4,474</b>	<b>12,765</b>
<b>EXPENDITURES</b>						
Current:						
Public safety	-	-	-	-	-	3,375
Public works	202,819	55,134	-	-	-	-
Recreation and culture	-	-	-	304	-	-
Debt service						
Principal	-	-	-	-	-	-
Interest and fees	-	-	-	-	-	-
<b>TOTAL EXPENDITURES</b>	<b>202,819</b>	<b>55,134</b>	<b>-</b>	<b>304</b>	<b>-</b>	<b>3,375</b>
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	<b>(16,900)</b>	<b>16,995</b>	<b>103,738</b>	<b>47,806</b>	<b>4,474</b>	<b>9,390</b>
<b>OTHER FINANCING SOURCES (USES)</b>						
Transfers in	-	25,000	-	-	-	-
Transfers (out)	(51,840)	(42,352)	(39,060)	-	-	-
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(51,840)</b>	<b>(17,352)</b>	<b>(39,060)</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>NET CHANGE IN FUND BALANCE</b>	<b>(68,740)</b>	<b>(357)</b>	<b>64,678</b>	<b>47,806</b>	<b>4,474</b>	<b>9,390</b>
FUND BALANCES, BEGINNING OF YEAR, AS RESTATED	258,480	23,507	4,599	8,977	-	12,290
<b>FUND BALANCES, END OF YEAR</b>	<b>\$ 189,740</b>	<b>\$ 23,150</b>	<b>\$ 69,277</b>	<b>\$ 56,783</b>	<b>\$ 4,474</b>	<b>\$ 21,680</b>

DEBT SERVICE FUNDS		PERMANENT FUND	
2004			
County DPW Lease Debt	Sewer Improvement Debt	Cemetery Trust	Total
\$ 171,117	\$ -	\$ -	\$ 273,566
-	-	-	10,000
-	-	-	236,697
-	-	-	10,789
-	-	-	4,459
-	-	6,450	6,450
6,011	876	3,726	16,553
576	-	-	57,377
177,704	876	10,176	615,891
-	-	-	3,375
-	-	-	257,953
-	-	-	304
35,000	40,000	-	75,000
79,028	55,583	-	134,611
114,028	95,583	-	471,243
63,676	(94,707)	10,176	144,648
-	95,583	-	120,583
-	-	-	(133,252)
-	95,583	-	(12,669)
63,676	876	10,176	131,979
150,800	67	105,797	564,517
\$ 214,476	\$ 943	\$ 115,973	\$ 696,496

**CITY OF GLADWIN  
MAJOR STREETS FUND  
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
<b>REVENUES</b>				
Intergovernmental:				
Gas and weight taxes	\$ 173,607	\$ 173,607	\$ 164,943	\$ (8,664)
Act 48 maintenance fees	-	10,800	10,789	(11)
Interest	1,300	3,600	4,138	538
Other revenue	1,300	6,100	6,049	(51)
<b>TOTAL REVENUES</b>	<u>176,207</u>	<u>194,107</u>	<u>185,919</u>	<u>(8,188)</u>
<b>EXPENDITURES</b>				
<b>PUBLIC WORKS</b>				
Highways and streets:				
Construction	-	128,476	128,476	-
Routine maintenance	42,500	32,100	32,249	(149)
Traffic services	11,000	17,600	10,071	7,529
Winter maintenance	34,000	30,900	28,333	2,567
Street cleaning	4,500	4,300	3,690	610
<b>TOTAL EXPENDITURES</b>	<u>92,000</u>	<u>213,376</u>	<u>202,819</u>	<u>10,557</u>
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	84,207	(19,269)	(16,900)	2,369
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers (out)	(52,620)	(52,620)	(51,840)	780
<b>NET CHANGE IN FUND BALANCE</b>	31,587	(71,889)	(68,740)	3,149
<b>FUND BALANCE, BEGINNING OF YEAR</b>	<u>258,480</u>	<u>258,480</u>	<u>258,480</u>	<u>-</u>
<b>FUND BALANCE, END OF YEAR</b>	<u>\$ 290,067</u>	<u>\$ 186,591</u>	<u>\$ 189,740</u>	<u>\$ 3,149</u>

**CITY OF GLADWIN  
LOCAL STREETS FUND  
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
<b>REVENUES</b>				
Intergovernmental:				
Gas and weight taxes	\$ 71,343	\$ 71,343	\$ 71,754	\$ 411
Interest	750	500	375	(125)
<b>TOTAL REVENUES</b>	<b>72,093</b>	<b>71,843</b>	<b>72,129</b>	<b>286</b>
<b>EXPENDITURES</b>				
<b>PUBLIC WORKS</b>				
Highways and streets:				
Construction	-	1,120	1,120	-
Routine maintenance	37,500	29,800	30,397	(597)
Traffic services	8,000	5,250	4,624	626
Winter maintenance	26,750	20,500	18,993	1,507
<b>TOTAL EXPENDITURES</b>	<b>72,250</b>	<b>56,670</b>	<b>55,134</b>	<b>1,536</b>
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	<b>(157)</b>	<b>15,173</b>	<b>16,995</b>	<b>1,822</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	25,000	25,000	25,000	-
Transfers (out)	(34,450)	(42,352)	(42,352)	-
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(9,450)</b>	<b>(17,352)</b>	<b>(17,352)</b>	<b>-</b>
<b>NET CHANGE IN FUND BALANCE</b>	<b>(9,607)</b>	<b>(2,179)</b>	<b>(357)</b>	<b>1,822</b>
<b>FUND BALANCE, BEGINNING OF YEAR</b>	<b>23,507</b>	<b>23,507</b>	<b>23,507</b>	<b>-</b>
<b>FUND BALANCE, END OF YEAR</b>	<b>\$ 13,900</b>	<b>\$ 21,328</b>	<b>\$ 23,150</b>	<b>\$ 1,822</b>

**CITY OF GLADWIN  
CITY STREETS FUND  
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
<b>REVENUES</b>				
Taxes	\$ 95,100	\$ 102,721	\$ 102,449	\$ (272)
Interest	1,000	800	928	128
Other revenue	-	400	361	(39)
<b>TOTAL REVENUES</b>	96,100	103,921	103,738	(183)
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers (out)	(29,450)	(39,060)	(39,060)	-
<b>NET CHANGE IN FUND BALANCE</b>	66,650	64,861	64,678	(183)
FUND BALANCE, BEGINNING OF YEAR	4,599	4,599	4,599	-
<b>FUND BALANCE, END OF YEAR</b>	<u>\$ 71,249</u>	<u>\$ 69,460</u>	<u>\$ 69,277</u>	<u>\$ (183)</u>

**CITY OF GLADWIN  
SKATE PARK FUND  
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
<b>REVENUES</b>				
Interest and rents	\$ -	\$ 260	\$ 287	\$ 27
Other revenue	-	48,000	47,823	(177)
<b>TOTAL REVENUES</b>	-	48,260	48,110	(150)
<b>EXPENDITURES</b>				
<b>RECREATION AND CULTURE</b>				
Supplies	-	200	196	4
Other services and charges	-	124	108	16
<b>TOTAL EXPENDITURES</b>	-	324	304	20
<b>NET CHANGE IN FUND BALANCE</b>	-	47,936	47,806	(130)
FUND BALANCE, BEGINNING OF YEAR	8,977	8,977	8,977	-
<b>FUND BALANCE, END OF YEAR</b>	<u>\$ 8,977</u>	<u>\$ 56,913</u>	<u>\$ 56,783</u>	<u>\$ (130)</u>



**CITY OF GLADWIN  
LIQUOR LAW ENFORCEMENT FUND  
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
<b>REVENUES</b>				
Intergovernmental:				
Liquor license fees	\$ -	\$ 4,460	\$ 4,459	\$ (1)
Interest and rents	-	-	15	15
<b>TOTAL REVENUES</b>	-	4,460	4,474	14
<b>FUND BALANCE, BEGINNING OF YEAR</b>	-	-	-	-
<b>FUND BALANCE, END OF YEAR</b>	\$ -	\$ 4,460	\$ 4,474	\$ 14

**CITY OF GLADWIN  
 DRUG LAW ENFORCEMENT FUND  
 SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
 BUDGET AND ACTUAL  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
<b>REVENUES</b>				
Intergovernmental:				
Local law enforcement block grant	\$ -	\$ 10,000	\$ 10,000	\$ -
Interest and rents	-	125	197	72
Drug forfeitures	-	2,600	2,568	(32)
<b>TOTAL REVENUES</b>	-	12,725	12,765	40
<b>EXPENDITURES</b>				
<b>PUBLIC SAFETY</b>				
Other services and charges	-	3,400	3,375	25
<b>NET CHANGE IN FUND BALANCE</b>	-	9,325	9,390	65
FUND BALANCE, BEGINNING OF YEAR	12,290	12,290	12,290	-
<b>FUND BALANCE, END OF YEAR</b>	<u>\$ 12,290</u>	<u>\$ 21,615</u>	<u>\$ 21,680</u>	<u>\$ 65</u>

## ASSETS

## LIABILITIES

**CITY OF GLADWIN  
AGENCY FUNDS  
COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

	Balance July 1, 2005	Additions	Deductions	Balance June 30, 2006
<b><u>TAX COLLECTION FUND</u></b>				
<b>ASSETS</b>				
Cash and cash equivalents	\$ 4,235	\$ 5,556,397	\$ 5,560,632	\$ -
<b>LIABILITIES</b>				
Due to or on behalf of others	\$ 4,235	\$ 2,836,847	\$ 2,841,082	\$ -
	Balance July 1, 2005	Additions	Deductions	Balance June 30, 2006
<b><u>PAYROLL FUND</u></b>				
<b>ASSETS</b>				
Cash	\$ -	\$ 994,823	\$ 984,892	\$ 9,931
Other assets	43,867	-	43,867	-
<b>TOTAL ASSETS</b>	<b>\$ 43,867</b>	<b>\$ -</b>	<b>\$ 43,867</b>	<b>\$ -</b>
<b>LIABILITIES</b>				
Due to or on behalf of others	\$ 43,867	\$ 1,612,198	\$ 1,646,134	\$ 9,931
	Balance July 1, 2005	Additions	Deductions	Balance June 30, 2006
<b><u>TOTAL</u></b>				
<b>ASSETS</b>				
Cash and cash equivalents	\$ 4,235	\$ 6,551,220	\$ 6,545,524	\$ 9,931
Other assets	43,867	-	43,867	-
<b>TOTAL ASSETS</b>	<b>\$ 48,102</b>	<b>\$ 6,551,220</b>	<b>\$ 6,589,391</b>	<b>\$ 9,931</b>
<b>LIABILITIES</b>				
Due to or on behalf of others	\$ 48,102	\$ 4,449,045	\$ 4,487,216	\$ 9,931

**CITY OF GLADWIN**  
**DOWNTOWN DEVELOPMENT AUTHORITY COMPONENT UNIT**  
**STATEMENT OF NET ASSETS AND BALANCE SHEET - GOVERNMENTAL FUND**  
**JUNE 30, 2006**

	Downtown Development Authority	Adjustments	Statement of Net Assets
<b>ASSETS</b>			
Cash and cash equivalents	\$ 406,102	\$ -	\$ 406,102
Deferred charges	-	6,667	6,667
Capital assets, net:			
Assets not being depreciated	-	19,000	19,000
Assets being depreciated	-	94,638	94,638
<b>TOTAL ASSETS</b>	<b>\$ 406,102</b>	<b>120,305</b>	<b>526,407</b>
<b>LIABILITIES</b>			
Accrued interest payable	\$ -	\$ 2,693	\$ 2,693
Noncurrent liabilities:			
Due within one year	12,689	125,000	137,689
Due in more than one year	282,568	146,000	428,568
<b>TOTAL LIABILITIES</b>	<b>295,257</b>	<b>273,693</b>	<b>568,950</b>
<b>FUND BALANCES</b>			
Reserved for debt service	110,845	(110,845)	-
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 406,102</b>		
<b>NET ASSETS</b>			
Unrestricted (deficit)		\$ (42,543)	\$ (42,543)

**CITY OF GLADWIN**  
**DOWNTOWN DEVELOPMENT AUTHORITY COMPONENT UNIT**  
**STATEMENT OF ACTIVITIES AND STATEMENT OF REVENUES, EXPENDITURES,**  
**AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUND**  
**FOR THE YEAR ENDED JUNE 30, 2006**

	Downtown Development Authority	Adjustments	Statement of Activities
<b>REVENUES</b>			
Taxes	\$ 357,470	\$ -	\$ 357,470
Interest	10,979	-	10,979
<b>TOTAL REVENUES</b>	<b>368,449</b>	<b>-</b>	<b>368,449</b>
<b>EXPENDITURES/EXPENSES</b>			
Supplies	6,056	-	6,056
Contractual services and other	6,123	-	6,123
Reimbursements	17,927	-	17,927
Other expenditures/expense	-	5,333	5,333
Debt service			
Principal	125,000	(125,000)	-
Interest expense	23,488	(1,188)	22,300
Capital outlay	54,724	(54,604)	120
Depreciation	-	5,135	5,135
<b>TOTAL EXPENDITURES/EXPENSES</b>	<b>233,318</b>	<b>(170,324)</b>	<b>62,994</b>
<b>CHANGE IN FUND BALANCE / NET ASSETS</b>	<b>135,131</b>	<b>170,324</b>	<b>305,455</b>
<b>FUND BALANCE / NET ASSETS (DEFICIT), BEGINNING OF YEAR, AS RESTATED</b>	<b>(24,286)</b>	<b>(323,712)</b>	<b>(347,998)</b>
<b>FUND BALANCE / NET ASSETS (DEFICIT), END OF YEAR</b>	<b>\$ 110,845</b>	<b>\$ (153,388)</b>	<b>\$ (42,543)</b>

**CITY OF GLADWIN  
ECONOMIC DEVELOPMENT CORPORATION COMPONENT UNIT  
STATEMENT OF NET ASSETS AND BALANCE SHEET - GOVERNMENTAL FUND  
JUNE 30, 2006**

	Economic Development Corporation	Adjustments	Statement of Net Assets
<b>ASSETS</b>			
Cash and investments	<u>\$ 22,068</u>	\$ -	\$ 22,068
<b>FUND BALANCES</b>			
Unreserved - undesignated	<u>\$ 22,068</u>	(22,068)	-
<b>NET ASSETS</b>			
Unrestricted		<u>\$ 22,068</u>	<u>\$ 22,068</u>

**CITY OF GLADWIN  
ECONOMIC DEVELOPMENT CORPORATION COMPONENT UNIT  
STATEMENT OF ACTIVITIES AND STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUND  
FOR THE YEAR ENDED JUNE 30, 2006**

	Economic Development Corporation	Adjustments	Statement of Activities
<b>REVENUES</b>			
Interest	\$ 526	\$ -	\$ 526
 FUND BALANCE / NET ASSETS, BEGINNING OF YEAR	 21,542	 -	 21,542
 <b>FUND BALANCE / NET ASSETS, END OF YEAR</b>	 \$ 22,068	 \$ -	 \$ 22,068



**CITY OF GLADWIN  
GLADWIN AIRPORT COMPONENT UNIT  
STATEMENT OF NET ASSETS - PROPRIETARY FUND  
JUNE 30, 2006**

	Gladwin Airport
<b>ASSETS</b>	
<b>CURRENT ASSETS</b>	
Cash and cash equivalents	\$ 16,420
Accounts receivable	4,770
Inventory	15,447
Prepaid items	3,273
<b>TOTAL CURRENT ASSETS</b>	<b>39,910</b>
<b>CAPITAL ASSETS</b>	
Land	57,000
Land improvements	1,210,754
Machinery and equipment	41,590
Less allowance for accumulated depreciation	(101,280)
<b>NET CAPITAL ASSETS</b>	<b>1,208,064</b>
<b>TOTAL ASSETS</b>	<b>1,247,974</b>
<b>LIABILITIES</b>	
<b>CURRENT LIABILITIES</b>	
Accounts payable	4,133
Accrued liabilities	2,250
Installment contracts payable, current portion	2,411
<b>TOTAL CURRENT LIABILITIES</b>	<b>8,794</b>
<b>LONG-TERM LIABILITIES</b>	
Installment contracts payable, net of current portion	4,822
<b>TOTAL LIABILITIES</b>	<b>13,616</b>
<b>NET ASSETS</b>	
Investment in capital assets	1,208,064
Unrestricted	26,294
<b>TOTAL NET ASSETS</b>	<b>\$ 1,234,358</b>

**CITY OF GLADWIN  
GLADWIN AIRPORT COMPONENT UNIT  
STATEMENT OF ACTIVITIES - PROPRIETARY FUND  
FOR THE YEAR ENDED JUNE 30, 2006**

	Gladwin Airport
<b>OPERATING REVENUES</b>	
Charges for services	\$ 91,326
Intergovernmental revenue	35,000
Reimbursements	35,000
Miscellaneous	1,170
	<hr/>
<b>TOTAL OPERATING REVENUES</b>	162,496
	<hr/>
<b>OPERATING EXPENSES</b>	
Supplies	90,995
Contractual services and other	62,269
Depreciation	45,908
	<hr/>
<b>TOTAL OPERATING EXPENSES</b>	199,172
	<hr/>
<b>OPERATING LOSS</b>	(36,676)
	<hr/>
<b>NONOPERATING REVENUES</b>	
Interest revenues	350
Gain on disposal of capital assets	2,712
	<hr/>
<b>TOTAL NONOPERATING REVENUES</b>	3,062
	<hr/>
<b>CHANGE IN NET ASSETS</b>	(33,614)
	<hr/>
<b>NET ASSETS, BEGINNING OF YEAR</b>	1,267,972
	<hr/>
<b>NET ASSETS, END OF YEAR</b>	\$ 1,234,358
	<hr/>

## **STATISTICAL SECTION**

Statistical tables differ from the financial statements because they usually cover more than one year and may present non-accounting data. These tables reflect social and economic data, financial trends and the fiscal capability of the City of Gladwin.

	<b><u>Page</u></b>
<b>Financial Trends</b>	<b>69</b>
These schedules contain trend information to help the reader understand how the City's financial performance and well-being have changed over time.	
<b>Revenue Capacity</b>	<b>74</b>
These schedules contain information to help the reader assess the factors affecting the City's ability to generate its property and sales taxes.	
<b>Debt Capacity</b>	<b>79</b>
These schedules present information to help the reader assess the affordability of the City's current levels of outstanding debt and the City's ability to issue additional debt in the future.	
<b>Demographic Information</b>	<b>86</b>
These schedules offer demographic indicators to help the reader understand the environment within which the City's financial activities take place and to help make comparisons over time and with other governments.	

**City of Gladwin**  
**Net Assets by Component**  
**Last Three Fiscal Years**  
**(accrual basis of accounting)**

	Fiscal Year		
	2004	2005	2006
<b>Governmental Activities</b>			
Invested in Capital Assets, net of related debt	\$ 3,521,386	\$ 4,327,514	\$ 5,499,935
Restricted	1,222,638	623,108	369,073
Unrestricted	1,423,670	856,565	930,453
<b>Total Governmental Activities Net Assets</b>	<u><u>\$ 6,167,694</u></u>	<u><u>\$ 5,807,187</u></u>	<u><u>\$ 6,799,461</u></u>
<b>Business-type Activities</b>			
Invested in Capital Assets, net of related debt	\$ 4,597,236	\$ 3,085,677	\$ 3,203,294
Restricted	90,479	1,566,981	-
Unrestricted	769,257	891,951	2,487,641
<b>Total Business-type Activities Net Assets</b>	<u><u>\$ 5,456,972</u></u>	<u><u>\$ 5,544,609</u></u>	<u><u>\$ 5,690,935</u></u>
<b>Total Governmental and Business-type Activities</b>			
Invested in Capital Assets, net of related debt	\$ 8,118,622	\$ 7,413,191	\$ 8,703,229
Restricted	1,313,117	2,190,089	369,073
Unrestricted	2,192,927	1,748,516	3,418,094
<b>Total Net Assets</b>	<u><u>\$ 11,624,666</u></u>	<u><u>\$ 11,351,796</u></u>	<u><u>\$ 12,490,396</u></u>

Note: 2004 was the first year of implementation of GASB 34; this table is intended to show trend information in the future

**City of Gladwin**  
**Changes in Net Assets**  
**Last Three Fiscal Years**  
**(accrual basis of accounting)**

	Fiscal Year		
	2004	2005	2006
<b>Expenses</b>			
Governmental Activities:			
General Government	\$ 538,162	\$ 569,926	\$ 612,092
Public Safety	553,452	618,534	614,820
Public Works	1,001,554	1,278,531	782,236
Health and Welfare	596	660	688
Recreation and Culture	161,370	151,440	147,728
Interest and Fees on Long-Term Debt	90,372	142,526	138,644
Total Governmental Activities Expenses	<u>\$ 2,345,506</u>	<u>\$ 2,761,617</u>	<u>\$ 2,296,208</u>
Business-Type Activities:			
Ice Arena	\$ 63,765	\$ 63,957	\$ 64,124
Sewer	488,357	493,068	478,633
Water	482,797	337,619	395,518
Total Business-Type Activities Expenses	<u>\$ 1,034,919</u>	<u>\$ 894,644</u>	<u>\$ 938,275</u>
Total Primary Government Expenses	<u><u>\$ 3,380,425</u></u>	<u><u>\$ 3,656,261</u></u>	<u><u>\$ 3,234,483</u></u>
<b>Program Revenues</b>			
Governmental Activities:			
Charges for Services:			
General Government	\$ 93,932	\$ 54,420	\$ 58,986
Public Safety	77,824	133,153	109,640
Public Works	173,414	151,880	159,670
Health and Welfare	1,950	-	-
Recreation and Culture	65,414	66,612	78,668
Interest and fees on Long-Term Debt	-	-	-
Operating Grants and Contributions	335,673	253,053	261,105
Capital Grants and Contributions	574,445	267,480	513,228
Total Governmental Activities Program Revenues	<u><u>\$ 1,322,652</u></u>	<u><u>\$ 926,598</u></u>	<u><u>\$ 1,181,297</u></u>

Business-type Activities:			
Charges for services:			
Ice Arena	\$ 60,479	\$ 60,478	\$ 60,479
Sewer	500,779	653,717	688,897
Water	388,536	379,922	392,204
Operating Grants and Contributions	-	-	17,082
Capital Grants and Contributions	-	-	-
Total Business-type Activities Program Revenues	\$ <u>949,794</u>	\$ <u>1,094,117</u>	\$ <u>1,158,662</u>
Total Primary Government Program Revenues	\$ <u><u>2,272,446</u></u>	\$ <u><u>2,020,715</u></u>	\$ <u><u>2,339,959</u></u>
Net (Expense)/Revenue			
Governmental Activities	\$ (1,022,854)	\$ (1,835,019)	\$ (1,114,911)
Business-type Activities	<u>(85,125)</u>	<u>199,473</u>	<u>220,387</u>
Total Primary Government Net Expense	\$ <u><u>(1,107,979)</u></u>	\$ <u><u>(1,635,546)</u></u>	\$ <u><u>(894,524)</u></u>

**General Revenues and Other Changes in  
Net Assets**

Governmental Activities:			
Property Taxes	\$ 979,228	\$ 999,790	1,078,266
Revenue Sharing	347,306	341,326	338,786
Interest Earnings	11,515	37,016	57,706
Miscellaneous	27,081	41,788	60,563
Transfers	<u>49,000</u>	<u>121,787</u>	<u>139,643</u>
Total Governmental Activities	\$ <u>1,414,130</u>	\$ <u>1,541,707</u>	\$ <u>1,674,964</u>
Business-type Activities:			
Investment Earnings	\$ 2,665	\$ 9,951	\$ 21,380
Miscellaneous	162	-	-
Transfers	<u>(60,153)</u>	<u>(121,787)</u>	<u>(139,643)</u>
Total Business-type Activities	\$ <u>(57,326)</u>	\$ <u>(111,836)</u>	\$ <u>(118,263)</u>
Total Primary Government	\$ <u><u>1,356,804</u></u>	\$ <u><u>1,429,871</u></u>	\$ <u><u>1,556,701</u></u>
<b>Change in Net Assets</b>			
Governmental Activities	\$ 391,276	\$ (293,312)	\$ 560,053
Business-type Activities	<u>(142,451)</u>	<u>87,637</u>	<u>102,124</u>
Total Primary Government	\$ <u><u>248,825</u></u>	\$ <u><u>(205,675)</u></u>	\$ <u><u>662,177</u></u>

Note: 2004 was the first year of implementation of GASB 34; this table is intended to show trend information in the future

**City of Gladwin**  
**Fund Balances of Governmental Funds**  
**Last Three Fiscal Years**  
**(modified accrual basis of accounting)**

	Fiscal Year		
	2004	2005	2006
<b>General Fund</b>			
Reserves	\$ 54,571	\$ 53,221	\$ 2,188
Designated	71,738	80,125	67,835
Unreserved/Undesignated	424,642	342,966	392,008
<b>Total General Fund</b>	<u>\$ 550,951</u>	<u>\$ 476,312</u>	<u>\$ 462,031</u>
 <b>All Other Governmental Funds</b>			
Reserved	\$ 189,833	\$ 599,858	\$ 369,073
Unreserved, Reported in:			
Special Revenue Funds	337,148	295,563	365,104
Capital Project Funds	984,498	-	-
Permanent Funds	20,878	-	-
<b>Total All Other Governmental Funds</b>	<u>\$ 1,532,357</u>	<u>\$ 895,421</u>	<u>\$ 734,177</u>

Note: 2004 was the first year of implementation of GASB 34; this table is intended to show trend information in the future

**City of Gladwin**  
**Changes in Fund Balances of Governmental Funds**  
**Last Three Fiscal Years**  
**(modified accrual basis of accounting)**

	Fiscal Year		
	2004	2005	2006
<b>Revenues</b>			
Taxes	\$ 960,652	\$ 1,017,951	\$ 1,078,266
Licenses and Permit	28,477	31,620	32,871
Intergovernmental Revenue	781,889	861,859	1,106,922
Charges for Services	239,543	341,951	343,198
Fines and Forfeitures	30,778	33,432	23,733
Interest and Rentals	14,476	34,286	57,512
Other Revenue	140,655	41,789	69,700
<b>Total Revenues</b>	<b>\$ 2,196,470</b>	<b>\$ 2,362,888</b>	<b>\$ 2,712,202</b>
<b>Expenditures</b>			
Legislative	\$ 63,121	\$ 78,427	\$ -
General Government	443,630	467,665	605,424
Public Safety	557,818	605,281	611,899
Public Works	727,159	599,155	598,398
Health and Welfare	596	660	688
Recreation and Culture	350,423	120,705	116,049
Debt Service	118,017		
Principal		35,000	75,000
Interest		128,070	134,611
Capital Projects	615,038	1,590,170	892,301
<b>Total Expenditures</b>	<b>\$ 2,875,802</b>	<b>\$ 3,625,133</b>	<b>\$ 3,034,370</b>
<b>Excess of Revenues</b>			
<b>Over (Under) Expenditures</b>	<b>\$ (679,332)</b>	<b>\$ (1,262,245)</b>	<b>\$ (322,168)</b>
<b>Other Financing Sources (Uses)</b>			
Bond Proceeds	\$ 1,250,000	\$ -	\$ -
Transfers In	423,129	436,058	279,895
Transfers Out	(304,128)	(277,271)	(133,252)
<b>Total Other Financing Sources (Uses)</b>	<b>\$ 1,369,001</b>	<b>\$ 158,787</b>	<b>\$ 146,643</b>
<b>Net Change in Fund Balance</b>	<b>\$ 689,669</b>	<b>\$ (1,103,458)</b>	<b>\$ (175,525)</b>
<b>Debt service as a percentage of noncapital expenditures</b>	<b>5.2%</b>	<b>8.0%</b>	<b>9.8%</b>

Note: 2004 was the first year of implementation of GASB 34; this table is intended to show trend information in the future



**CITY OF GLADWIN  
PROPERTY TAX VALUATION RATES - LEVIES  
LAST TEN YEARS**

Tax Roll Year	Real Property				Personal Property				Total			
	Homestead Taxable Value	Non-Homestead Taxable Value	Homestead Estimated Actual Value	Non-Homestead Estimated Actual Value	Homestead Taxable Value	Non-Homestead Taxable Value	Homestead Estimated Actual Value	Non-Homestead Estimated Actual Value	Homestead Taxable Value	Non-Homestead Taxable Value	Homestead Estimated Actual Value	Non-Homestead Estimated Actual Value
1996	\$ 14,866,967	\$ 14,137,754	\$ 29,733,952	\$ 28,275,508	\$ -	\$ 6,773,731	\$ -	\$ 13,547,462	\$ 14,866,967	\$ 20,911,485	\$ 29,733,934	\$ 41,822,970
1997	15,793,789	15,301,356	31,587,578	30,602,712	-	7,501,382	-	15,002,764	15,793,789	22,802,738	31,587,578	45,605,476
1998	17,299,516	16,220,062	34,599,032	32,440,124	-	7,841,944	-	15,683,888	17,299,516	24,062,006	34,599,032	48,124,012
1999	18,465,609	16,649,301	36,931,218	33,298,602	-	6,455,811	-	12,911,622	18,465,609	23,105,112	36,931,218	46,210,224
2000	19,827,602	17,495,388	39,655,204	34,990,776	-	7,447,490	-	14,894,980	19,827,602	24,942,878	39,655,204	49,885,756
2001	21,482,546	19,004,986	42,965,092	38,009,972	-	7,108,406	-	14,216,812	21,482,546	26,113,392	42,965,092	52,226,784
2002	23,164,461	19,887,561	46,328,922	39,775,122	-	7,856,258	-	15,712,516	23,164,461	27,743,819	46,328,922	55,487,638
2003	24,161,894	21,460,992	48,323,788	42,921,984	-	7,517,830	-	15,035,660	24,161,894	28,978,822	48,323,788	57,957,644
2004	25,674,077	23,562,419	51,348,154	47,124,838	-	8,284,200	-	16,568,400	25,674,077	31,846,619	51,348,154	63,693,238
2005	26,318,295	28,094,215	52,636,590	56,188,430	-	9,391,692	-	18,783,384	26,318,295	37,485,907	52,636,590	74,971,814

Tax Rate (Mills)				Tax Levy				
Tax Roll Year	City Operations	City Debt	Fire Assessment	City Operations	City Debt	**Fire Assessment	Total Tax Levy	Total Tax Levy without Fire Assessment
1996	15.0000	3.0000	1.0000	\$ 550,856	\$ 110,172	\$ 31,402	\$ 692,430	\$ 661,028
1997	15.0000	3.0000	1.0000	592,680	118,535	35,532	746,747	711,215
1998	15.0000	3.0000	1.0000	621,260	124,251	38,457	783,968	745,511
1999	14.9220	3.0000	1.0000	621,149	124,879	35,160	781,188	746,028
2000	14.9220	3.0000	1.0000	669,763	134,650	37,351	841,764	804,413
2001	14.8414	3.0000	1.0000	706,383	142,783	40,488	889,654	849,166
2002	14.8414	3.0000	1.0000	755,543	153,578	43,047	952,168	909,121
2003	14.6736	3.0000	1.0000	779,758	162,051	45,924	987,733	941,809
2004	14.6457	3.0000	1.0000	817,309	172,557	48,625	1,038,491	989,866
2005	14.6457	3.0000	1.0000	859,604	191,408	54,408	1,105,420	1,051,012

\* Does not include Industrial or Commercial Facility Tax

\*\* Properties subject to the Fire Assessment make up a combined taxable value of an area within the City and is not assessed based on Homestead or Non-Homestead, but by property location.  
This assessment is levied on real property only.

\*\*\*Taxable value is 50% of estimated actual value.

Source: Apportionment report issued by the Gladwin County Equilaization Director and data from the Assessor's Wattant.

**City of Gladwin**  
**Governmental Activities Tax Revenues By Source**  
**Last Ten Fiscal Years**  
**(modified accrual basis of accounting)**

<b>Fiscal Year</b>	<b>Property Tax</b>
1997	\$ 628,826
1998	665,995
1999	706,902
2000	749,054
2001	784,244
2002	821,111
2003	852,339
2004	960,652
2005	1,017,951
2006	1,078,266

**City of Gladwin  
Principal Taxpayers  
Fiscal Year Ending June 30, 2006**

Taxpayer	Type of Business	2005			1996		
		Taxable Assessed Value	Rank	Percentage of Total Taxable Assessed Value	Taxable Assessed Value	Rank	Percentage of Total Taxable Assessed Value
Oberloier Smith Properties	Manufacturing	\$ 3,979,934	1	6.2	\$		
Dura Automotive	Automotive	2,692,992	2	4.2			
Dennings, Devere and Carol	Commercial Development	2,645,240	3	4.2	479,204	6	1.3
Consumers Energy	Utility	2,233,803	4	3.5	1,877,923	2	5.3
DeShano, Gary & Florence	Construction	1,903,335	5	3.0	752,858	5	2.1
Pamida Seven LLC	Retail	832,846	6	1.3			
Ashcraft Gladwin LLC	Retail	755,992	7	1.2	1,241,000	3	3.5
Otto, Lee & Yvone	Auto Sales	567,965	8	0.9			
Graff Motor Sales	Auto Sales	548,038	9	0.9	447,959	7	1.3
Smith, Michael & Amy	Motel	517,241	10	0.8	359,078	10	1.0
Simpson Industries	Automotive				3,091,707	1	8.6
Spartan Engineered Products	Automotive				936,397	4	2.6
Tooling Systems	Automotive				373,108	8	1.0
Stewart, Harry Robert	Retail				369,329	9	1.0

Source: Treasurer of the City of Gladwin, Michigan.

**CITY OF GLADWIN  
PROPERTY TAX LEVIES AND COLLECTIONS  
LAST TEN YEARS**

<b>Tax Roll Year</b>	<b>Fiscal Year Ended June 30</b>	<b>Total Tax Levy for Fiscal Year</b>	<b>Collected within the Fiscal Year of the Levy Amount</b>	<b>Percentage of Levy</b>	<b>Collections in Subsequent Years</b>	<b>Total Collections to Date Amount</b>	<b>Percentage of Levy</b>	<b>Outstanding Delinquent Taxes</b>	<b>Percent Delinquent Taxes to Tax Levy</b>
1996	1997	\$ 661,056	\$ 623,130	94.26%	\$ 37,926	\$ 661,056	100.00%	\$ -	0.000%
1997	1998	711,215	670,282	94.24%	40,933	711,215	100.00%	-	0.000%
1998	1999	745,511	701,104	94.04%	44,407	745,511	100.00%	-	0.000%
1999	2000	747,603	693,983	92.83%	53,309	747,292	99.96%	311	0.042%
2000	2001	802,329	752,064	93.74%	49,954	802,018	99.96%	311	0.039%
2001	2002	848,746	759,542	89.49%	89,204	848,746	100.00%	-	0.000%
2002	2003	909,121	829,177	91.21%	73,514	902,691	99.29%	6,430	0.707%
2003	2004	941,809	880,980	93.54%	55,251	936,231	99.41%	5,578	0.592%
2004	2005	990,120	931,706	94.10%	57,486	989,192	99.91%	928	0.094%
2005	2006	1,051,012	1,049,095	99.82%	-	1,045,372	99.46%	1,917	0.182%

Source: Apportionment report issued by the Gladwin County Equilaization Director and data from the Treasurer of the City of Gladwin, Michigan.

**City of Gladwin  
Property Tax Rates  
Direct and Overlapping\* Governments  
Last Ten Fiscal Years**

Fiscal Year	City of Gladwin			Gladwin County			Overlapping Rates					Total Direct & Overlapping Rates
	Operating Millage	Debt	Total City Millage	Operating Millage	Other	Total County Millage	Non-homestead Millage	Debt	Total School Millage	State Education Tax	Special Districts	
		Service Millage			County Millage			Service Millage				
1996	15.0000	3.0000	18.0000	5.0939	4.0260	9.1199	18.0000	3.0000	21.0000	6.0000	3.6438	57.7637
1997	15.0000	3.0000	18.0000	5.0939	3.5401	8.6340	18.0000	3.0000	21.0000	6.0000	3.6438	57.2778
1998	15.0000	3.0000	18.0000	5.0608	4.1806	9.2414	17.9568	3.0000	20.9568	6.0000	3.6303	57.8285
1999	14.9220	3.0000	17.9220	4.9894	4.3109	9.3003	17.9370	2.2500	20.1870	6.0000	3.5875	56.9968
2000	14.9220	3.0000	17.9220	4.9265	4.2892	9.2157	18.0000	2.2500	20.2500	6.0000	3.5614	56.9491
2001	14.8414	3.0000	17.8414	4.8521	3.6298	8.4819	18.0000	2.2500	20.2500	6.0000	3.5200	56.0933
2002	14.8414	3.0000	17.8414	4.7778	4.3301	9.1079	17.6662	2.2500	19.9162	6.0000	3.4759	56.3414
2003	14.6736	3.0000	17.6736	4.6836	4.8290	9.5126	17.2475	2.2500	19.4975	5.0000	3.4110	55.0947
2004	14.6457	3.0000	17.6457	4.5857	4.7278	9.3135	18.0000	2.2500	20.2500	6.0000	3.3550	56.5642
2005	14.6457	3.0000	17.6457	4.4935	4.7719	9.2654	17.5662	1.8200	19.3862	6.0000	3.3075	55.6048

\*Overlapping rates are those of local and county governments that apply to property owners with the City of Gladwin.

In the City of Gladwin all overlapping rates apply to all property owners in the City.

\*\*Rate per \$1,000 of taxable value.

Source: Apportionment report issued by the Gladwin County Equalization Director.

**City of Gladwin**  
**Ratios of Outstanding Debt by Type**  
**Last Ten Fiscal Years**

Fiscal Year	Governmental Activities				Business-Type Activities			Total Primary Government	Percentage of	Per Capita (1)
	General	Special	Capital Leases	Sewer Bonds	General	Capital Leases	Actual Taxable Value of Property			
	Obligation Bonds	Assessment Bonds			Obligation Bonds					
1997	\$ 185,000	\$ -	\$ 1,525,000	\$ -	\$ -	\$ 232,000	\$ 1,942,000	2.71%	\$ 714	
1998	145,000	-	1,975,000	-	-	224,000	2,344,000	3.04%	862	
1999	105,000	-	1,950,000	-	-	216,000	2,271,000	2.75%	835	
2000	60,000	-	1,925,000	-	-	206,000	2,191,000	2.64%	806	
2001	40,000	-	1,875,000	-	-	195,000	2,110,000	2.36%	703	
2002	20,000	-	1,470,000	-	-	533,000	2,023,000	2.13%	674	
2003	1,435,000	-	-	-	325,000	-	1,760,000	1.73%	586	
2004	2,650,000	-	-	-	3,000,000	-	5,650,000	5.32%	1,883	
2005	2,615,000	-	-	-	270,000	-	2,885,000	2.51%	961	
2006	2,540,000	-	-	-	240,000	-	2,780,000	2.18%	926	

Note: Does not include bonds issued by component units (specifically the Downtown Development Authority).

Details regarding the City's outstanding debt can be found in the notes to the financial statements.

(1) See Statistical Table on page 75 for population data.

**City of Gladwin**  
**Ratios of General Bonded Debt Outstanding**  
**Last Ten Fiscal Years**

<b>Fiscal Year Ended 30-Jun</b>	<b>Estimated Population</b>	<b>General Obligation Bonds</b>	<b>Less: Amounts Available in Debt Service Fund</b>	<b>Total</b>	<b>Taxable Value</b>	<b>Percentage of Estimated Actual Taxable Value of Property</b>	<b>Per Capita</b>
1997	2,719	\$ 2,885,000	\$ 59,470	\$ 2,825,530	\$ 37,639,354	7.51%	\$ 1,039
1998	2,719	3,245,000	66,371	3,178,629	43,519,947	7.30%	1,169
1999	2,719	3,105,000	62,144	3,042,856	46,344,444	6.57%	1,119
2000	2,719	2,960,000	67,203	2,892,797	46,724,400	6.19%	1,064
2001	3,001	2,790,000	75,637	2,714,363	51,301,004	5.29%	904
2002	3,001	2,615,000	89,400	2,525,600	57,680,091	4.38%	842
2003	3,001	2,410,000	87,737	2,322,263	61,729,240	3.76%	774
2004	3,001	3,475,000	115,441	3,359,559	65,924,630	5.10%	1,119
2005	3,001	3,285,000	150,866	3,134,134	57,520,696	5.45%	1,044
2006	3,001	3,055,000	215,419	2,839,581	63,804,202	4.45%	946

Note: Details regarding the City's outstanding debt can be found in the notes to the financial statements.

**City of Gladwin**  
**Computation of Direct and Overlapping Debt**  
**June 30, 2006**

<b>Governmental Unit</b>	<b>Bonds Outstanding</b>	<b>Balances On Hand</b>	<b>Net Debt Outstanding</b>	<b>Percentage Applicable to City</b>	<b>City's Share of Debt</b>
City of Gladwin					
Direct Debt General					
Obligation Bonds	\$ 3,055,000	\$ 215,419	\$ 2,839,581	100.00%	\$ 2,839,581
<u>Overlapping Debt</u>					
School District - Gladwin	11,425,000	392,471	11,032,529	16.14%	<u>1,780,700</u>
Total Direct and Overlapping Debt					<u><u>\$ 4,620,281</u></u>

Sources: Debt outstanding data provided by the Gladwin Community School District.

Note: Overlapping governments are those that coincide, at least in part, with the geographic boundaries of the city. This schedule estimates the portion of the outstanding debt of those overlapping governments that is borne by the residents and businesses of the City of Gladwin. This process recognizes that, when considering the government's ability to issue and repay long-term debt, the entire debt burden borne by the residents and business should be taken into account. However, this does not imply that every taxpayer is a resident, and therefore responsible for repaying the debt, of each overlapping government.



**City of Gladwin  
Legal Debt Margin Information  
Last Ten Fiscal Years**

	<b>1996</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>Fiscal Year 2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>
Debt Limit	\$ 3,509,586	\$ 4,351,995	\$ 4,634,444	\$ 4,634,444	\$ 4,158,609	\$ 5,130,100	\$ 5,758,009	\$ 5,117,908	\$ 6,592,463	\$ 6,972,739	\$ 76,306,900
Total net debt applicable to limit	<u>1,376,946</u>	<u>1,204,402</u>	<u>1,653,629</u>	<u>1,517,856</u>	<u>1,367,797</u>	<u>1,214,363</u>	<u>1,055,600</u>	<u>887,263</u>	<u>708,417</u>	<u>498,607</u>	<u>229,581</u>
Legal debt margin	<u>\$ 2,132,640</u>	<u>\$ 3,147,593</u>	<u>\$ 2,980,815</u>	<u>\$ 3,116,588</u>	<u>\$ 2,790,812</u>	<u>\$ 3,915,737</u>	<u>\$ 4,702,409</u>	<u>\$ 4,230,645</u>	<u>\$ 5,884,046</u>	<u>\$ 6,474,132</u>	<u>\$ 76,077,319</u>
Total net debt applicable to the limit as a percentage of debt limit	39.23%	27.67%	35.68%	32.75%	32.89%	23.67%	18.33%	17.34%	10.75%	7.15%	0.30%

**Legal Debt Margin Calculation for Fiscal Year 2006**

Total assessed value	\$ 76,306,900
Debt limit (10% of total assessed value)	\$ <u>7,630,690</u>
Debt applicable to limit:	
Total bond debt	3,055,000
Less: Assets available for Debt Service	(215,419)
Less: Court Order Issues (Environmental)	<u>(2,540,000)</u>
Total net debt applicable to limit	<u>299,581</u>
Legal debt margin	\$ <u><u>7,331,109</u></u>

**City of Gladwin  
Pledged-Revenue Coverage  
Last Ten Fiscal Years**

<b>Fiscal Year</b>	<b>Ice Arena Revenue Bonds</b>						
	<b>Ice Arena Rental</b>	<b>Less: Operating Expenses</b>	<b>Net Available Revenue</b>	<b>Debt Service</b>			<b>Coverage</b>
				<b>Principal</b>	<b>Interest</b>		
2000	\$ 29,943	\$ 14,107	\$ 15,836	\$ -	\$ 51,575		0.31
2001	63,705	2,180	61,525	-	60,479		1.02
2002	61,907	2,474	59,433	-	60,479		0.98
2003	63,541	-	63,541	-	60,479		1.05
2004	60,479	2,240	58,239	-	60,479		0.96
2005	60,478	2,432	58,046	-	60,479		0.96
2006	60,479	2,599	57,880	-	60,479		0.96

Note: Bonds were issued June 24, 1999

The first principal payment will occur in fiscal 2007

**City of Gladwin  
Direct Debt Issue  
June 30, 2006**

<b>Date</b>	<b>Purpose</b>	<b>Type</b>	<b>Original Amount</b>	<b>Interest Spread</b>	<b>Maturities</b>	<b>Principal Outstanding</b>
1993	Downtown Development	LTGO	\$ 1,250,000	4.00%-5.90%	05/01/96-08	\$ 275,000
1996	Water/Sewer System	GO	1,525,000	5.70%-6.00%	09/01/00-20	1,330,000
1998	Water/Sewer System	GO	450,000	4.30%-5.40%	09/01/99-13	240,000
2004	Water/Sewer System	GO	1,250,000	2.50%-5.10%	11/01/05-11	1,210,000
						<u>\$ 3,055,000</u>

**City of Gladwin**  
**Direct Debt Annual Maturity Schedule**  
**June 30, 2006**

For Year Ended 30-Jun	1993 Downtown Development Bonds		Gladwin County Water Supply and Sewage Capital Lease		Water and Sewer Improvement Capital Lease		Sewer Improvement Capital Lease		Total Requirements
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	
2007	\$ 125,000	\$ 16,163	\$ 30,000	\$ 11,863	\$ 50,000	\$ 76,280	\$ 40,000	\$ 82,024	\$ 431,330
2008	150,000	8,850	30,000	10,325	55,000	73,274	45,000	53,129	425,578
2009	-	-	30,000	8,772	55,000	70,111	45,000	51,565	260,448
2010	-	-	35,000	7,074	65,000	66,661	45,000	49,889	268,624
2011	-	-	35,000	5,228	65,000	62,923	50,000	48,010	266,161
2012	-	-	40,000	3,230	70,000	59,043	50,000	45,948	268,221
2013	-	-	40,000	1,080	70,000	55,017	55,000	43,715	264,812
2014	-	-			90,000	50,418	55,000	41,323	236,741
2015	-	-			100,000	44,955	60,000	38,763	243,718
2016	-	-			110,000	38,890	60,000	36,033	244,923
2017	-	-			120,000	32,190	65,000	33,125	250,315
2018	-	-			120,000	25,140	70,000	29,935	245,075
2019	-	-			120,000	18,000	70,000	26,593	234,593
2020	-	-			120,000	10,800	75,000	23,094	228,894
2021	-	-			120,000	3,600	75,000	19,438	218,038
2022	-	-					80,000	15,620	95,620
2023	-	-					85,000	11,515	96,515
2024	-	-					90,000	7,118	97,118
2025	-	-					95,000	2,423	97,423
	\$ 275,000	\$ 25,013	\$ 240,000	\$ 47,572	\$ 1,330,000	\$ 687,302	\$ 1,210,000	\$ 659,260	\$ 4,474,147

**City of Gladwin**  
**Demographic Information**

The population of the City in the last five censuses is as follows:

2000 U.S. Census	3,001
1990 U.S. Census	2,682
1980 U.S. Census	2,479
1970 U.S. Census	2,071
1960 U.S. Census	2,226

Source: United States Census Bureau

## **SINGLE AUDIT**

**CITY OF GLADWIN, MICHIGAN**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED JUNE 30, 2006**

<b>FEDERAL GRANTOR/PASS THROUGH GRANTOR/PROGRAM TITLE</b>	<b>FEDERAL CFDA NUMBER</b>	<b>GRANT NUMBER</b>	<b>FEDERAL AWARDS EXPENDED</b>
<b><u>U.S. DEPARTMENT OF JUSTICE</u></b>			
Passed-Through State of Michigan Office of Drug Control Policy:			
Local Law Enforcement Block Grant	16.592	83028-1-04-L	\$ 10,000
<b><u>U.S. DEPT. OF HOUSING &amp; URBAN DEVELOPMENT</u></b>			
Passed-Through Michigan Economic Development Corporation:			
Community Development Block Grant	14.228	MSC 201083	<u>503,228</u>
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>			<u><u>\$ 513,228</u></u>

**NOTES:**

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the City of Gladwin and is presented on the modified accrual basis of accounting. The information presented in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments and Non Profit Organizations.



**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

September 7, 2006

City Council  
City of Gladwin  
Gladwin, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the *City of Gladwin* as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements, and have issued our report thereon dated September 7, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the *City of Gladwin's* internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the *City of Gladwin's* financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.



This report is intended solely for the information and use of management, others within the Organization, the City council, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style with a large initial 'L'.



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH  
REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM  
AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE  
WITH OMB CIRCULAR A-133**

September 7, 2006

City Council  
City of Gladwin  
Gladwin, Michigan

**Compliance**

We have audited the compliance of *the City of Gladwin, Michigan* with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2006. *City of Gladwin, Michigan's* major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of *City of Gladwin, Michigan's* management. Our responsibility is to express an opinion on *City of Gladwin, Michigan's* compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about *City of Gladwin, Michigan's* compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on *City of Gladwin, Michigan's* compliance with those requirements.

In our opinion, *City of Gladwin, Michigan* complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements that is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 2006-1.

## **Internal Control Over Compliance**

The management of *City of Gladwin, Michigan* is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered *City of Gladwin, Michigan's* internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the finance committee, others within the organization, City Council, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, reading "Lehmann Lohman". The signature is written in a cursive style with a large, stylized 'L' at the beginning.

**CITY OF GLADWIN**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED JUNE 30, 2006**

---

**SECTION I - SUMMARY OF AUDITOR'S RESULTS**

**Financial Statements**

Type of auditor's report issued: *Unqualified on basic financial statements*

Internal controls over financial reporting:

Material weakness(es) identified? \_\_\_\_\_ yes   X   no

Reportable condition(s) identified not  
considered to be material weaknesses? \_\_\_\_\_ yes   X   none reported

Noncompliance material to financial  
statements noted?

\_\_\_\_\_ yes   X   no

**Federal Awards**

Internal Control over major programs:

Material weakness(es) identified? \_\_\_\_\_ yes   X   no

Reportable condition(s) identified not  
considered to be material weaknesses? \_\_\_\_\_ yes   X   none reported

Type of auditor's report issued on compliance  
for major programs:

*Unqualified*

Any audit findings disclosed that are required to  
be reported in accordance with Circular A-133,  
Section 510(a)?

  X   yes \_\_\_\_\_ no

Identification of Major Programs:

**CFDA Number**

**Name of Federal Program or Cluster**

14.228

Community Development Block Grant

Dollar threshold used to distinguish  
between Type A and Type B programs:

\$300,000

Auditee qualified as low-risk auditee?

  X   yes \_\_\_\_\_ no

**CITY OF GLADWIN**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED JUNE 30, 2006**

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**SECTION II – FINANCIAL STATEMENT FINDINGS**

None

**SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

**2006-1**                      Davis-Bacon Act Non-compliance

**Criteria:**                      Office of Management and Budget Circular A-133, *Compliance Supplement*, indicates that contracts subject to the Davis-Bacon Act require the contractor or subcontractor to submit to the non-Federal entity weekly, for each week in which any contract work is performed, a copy of the payroll and a statement of compliance (certified payrolls) (29 CFR sections 5.5 and 5.6).

**Condition:**                      The City did not obtain certified payrolls from applicable contractors in the current fiscal year.

**Questioned Costs:**      No costs were questioned in the current year as a result of this finding.

**Effect:**                              The City is in non-compliance with the provisions of the Davis-Bacon Act.

**Cause:**                              Turnover in the City Administrator position was the cause for the non-compliance.

**Recommendation:**      We recommend that the City request weekly certified payrolls for all applicable contractors in future grant periods.

**CITY OF GLADWIN**  
**SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS**  
**FOR THE YEAR ENDED JUNE 30, 2006**

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There were no audit findings in the prior year.



1000 West Cedar Avenue  
Gladwin, Michigan 48624  
Telephone: (989) 426-9231  
Fax: (989) 426-6942

December 30, 2006

To Whom It May Concern:

The City offers the following to correct the auditor's findings and questioned costs as listed for June 30, 2006:

<u>Finding</u>	<u>Corrective Action Planned</u>
06-01	<p>Certified payrolls were being maintained by the engineer rather than City personnel</p> <p>The long-time City Administrator left at the end of fiscal year 2004, an interim manager was hired and left at the end of fiscal year 2005 and finally a City Administrator was hired. The new City Administrator has taken steps to ensure that all certified payrolls be filed in the City offices as required by the Davis-Bacon Act.</p>

We feel the above addresses and corrects the issue.

Sincerely,

Robert Moffit  
City Administrator



# REHMANN ROBSON

*Certified Public Accountants*

A member of THE REHMANN GROUP

An Independent Member of Baker Tilly International

September 7, 2006

To the Honorable Mayor  
and City Council  
City of Gladwin  
Gladwin, Michigan

In planning and performing our audit of the financial statements of the ***City of Gladwin, Michigan*** for the year ended June 30, 2006, we considered the City's internal controls to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal controls.

However, during our audit we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters. (A separate report dated September 7, 2006, contains our report on the City's compliance and internal controls). This letter does not affect our report dated September 7, 2006, on the financial statements of the ***City of Gladwin, Michigan***.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various City personnel, and we will be pleased to discuss these comments in further detail at your convenience, or perform any additional studies of these matters, or to assist you in implementing the recommendations.



# **CITY OF GLADWIN, MICHIGAN**

## **COMMENTS AND RECOMMENDATIONS**

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### **1) Review and Approval of Journal Entries**

Journal entries are one method used to record financial activity on the City's general ledger accounting system. Most journal entries are prepared and posted to the general ledger accounting system by one employee. The City's current internal control procedures do not require that journal entries are reviewed and approved by a responsible official that is independent of the journal entry preparation.

#### **Recommendation:**

The City should adopt and enforce a policy that requires that significant adjusting journal entries are reviewed and approved by a responsible independent official, prior to being posted to the general ledger.

### **2) Required Cash Accounts**

The Uniform Accounting Manual published by the State Department of Treasury requires that the City maintain the following separate bank accounts; (1) Common Account (2) Current Tax Collection Account (3) Act 51 Road / Street Account (4) Bond Issues, Debt Fund and Capital Projects Fund. The City does not have a separate bank account for its Act 51 Road / Streets funds. Additional bank accounts may be required by the City's bond / debt covenants.

#### **Recommendation:**

The City should review the relevant provisions of the Uniform Accounting Manual and implement whatever procedures are necessary to ensure compliance with the manual.